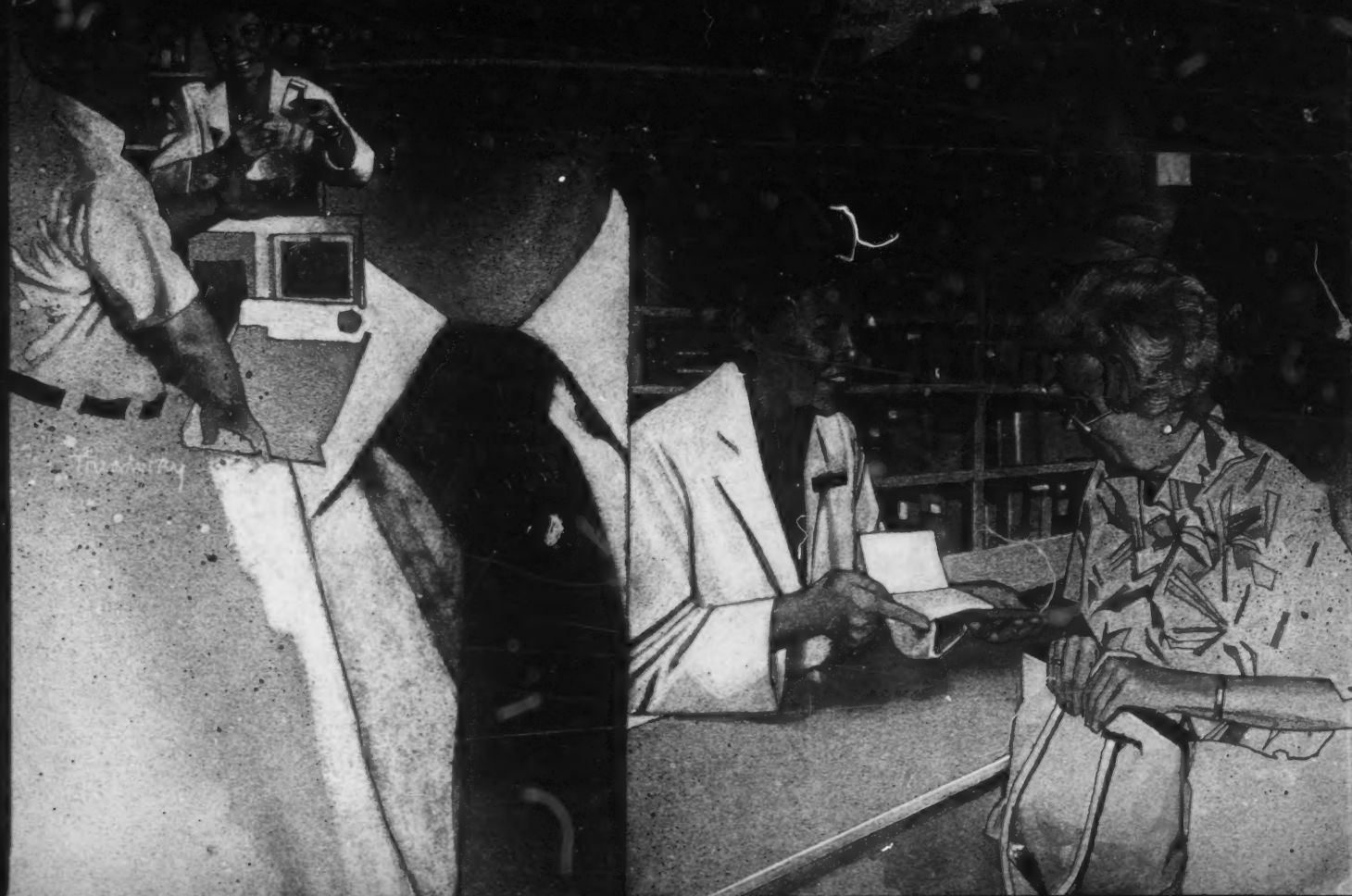


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LILLY DIGEST

1990



A summary of the 1989 operations of 1,713 independent community pharmacies.

The most comprehensive report of independent community pharmacy operations available.

Published annually in the interest of sound pharmacy management.

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Eli Lilly and Company is a research-based corporation that develops, manufactures, and markets pharmaceuticals, medical instruments, diagnostic products, and agricultural products.

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FOREWORD

During the 1930s, Mr. Eli Lilly saw a need to help independent retail pharmacies survive the economic hardships brought on by the great depression. He asked Paul Olsen, faculty member at Philadelphia College of Pharmacy, to develop a financial analysis service for pharmacists. This was the beginning of the LILLY DIGEST. Eli Lilly and Company has been providing the LILLY DIGEST to retail pharmacists for 58 years. The main purpose of the DIGEST has not changed from that outlined in the first volume in 1932: "A comprehensive reference source to be used by drug store management to improve profitability."

The LILLY DIGEST is designed to be used by independent community pharmacy managers in the evaluation of their pharmacy operating data. It contains operating information derived from voluntary submissions by community pharmacists throughout the United

States. The DIGEST makes no attempt to define or structure the sample. It presents the averages of reported data without editorial comment.

The Heart of the LILLY DIGEST (pages 13 through 24) contains 30 summaries of 1989 operating figures, arranged according to total sales volume and daily prescription activity. For comparative purposes, a manager can readily isolate the summary that is most similar to the operation being analyzed.

Eli Lilly and Company appreciates the assistance of the 1,713 pharmacies that submitted operating data. Without their participation, this edition would not have been possible. Some of the charts and tables in the DIGEST are based on data from fewer than the total number of participants, since all respondents did not answer every question or submit 12 months of data.

LILLY ANALYSIS SERVICE

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy can be analyzed at no charge. The service is available to any pharmacist upon request and all information is kept strictly confidential.

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, and a written report is mailed directly to the designated addressee. If the address given is adequate for mailing, no name need be submitted.

To receive a free personal and confidential analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, IN 46285 or call (317) 276-6009.

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EXECUTIVE SUMMARY

For the 40th consecutive year, participating LILLY DIGEST pharmacies reported increased sales, setting a new record—an average of over \$800,000 (Table 1). Total sales grew by 5.6% during 1989; however, that figure is below the 13.2% observed in 1988. Although total sales increased during 1989, the cost of goods sold also advanced, resulting in a gross margin decrease to 31.1% of total sales, the lowest in the history of the LILLY DIGEST. It is interesting to note that in light of this decrease in gross margin percent, gross margin dollars increased to over \$250,000, the highest in the history of the LILLY DIGEST.

Prescription sales increased 10.4% while other sales decreased 5.2% from the previous year. In the typical LILLY DIGEST community pharmacy, prescription income accounted for 72.1% of total sales. This represents a new record in total prescription sales as well as prescription revenue as a percent of total sales.

As a result of a decline in employee wages, depreciation, and miscellaneous expenses as a percent of total sales, 1989 total expenses fell to a record low of 28.1% of total revenue. Net profit before taxes increased 7.1% to \$24,892. This represents a \$1,642 increase from 1988. Net profit was 3.1% of total revenue, up from the previous year's 3.0%.

Managers may attempt to maintain profit in light of a declining gross margin percent by raising prices when competition allows, eliminating unfavorable third party plans, reevaluating purchase practices, decreasing total expenditures, and/or reexamining theft deterrents.

Although total expenses as a percent of sales decreased in 1989, expenses increased dollarwise (up \$8,694 or 4.0%). Average proprietor's or manager's salary as a percent of sales remained the same but increased \$2,590 or 5.7% over the previous year. Employee wages increased in

dollars, but declined to 9.3% of total sales. Rent advanced 4.6% in dollars, but remained unchanged as a percent of sales at 2.3%. Miscellaneous operating expenses increased by \$976, a 2.6% increase over the previous year's figure. A smaller share of the sales dollar was miscellaneous operating expenses, down from 4.8% in 1988 to 4.7% in 1989.

The increase in net profit dollars and in the salary drawn by the owner/manager resulted in a new high for total proprietor's income of \$73,017. This represents a \$4,232 or 6.2% increase over the previous year. Proprietor's total income increased from 8.9% in 1988 to 9.0% of total sales in 1989.

Although total inventory dollars increased, inventory expressed as a percent of sales declined to 13.2%. Prescription inventory cost \$5,538 more during 1989; however, as a percent of prescription sales, it remained unchanged at 10.2%. Merchandise inventory, excluding prescription items, increased slightly from 20.4% to 21.2% of sales but was lower in dollars of inventory than in the previous year. Average inventory turnover increased from 5.1 times in 1988 to 5.4 times in 1989.

Merchandise selling space in the average independent community pharmacy decreased 3% to 2,793 square feet during 1989. Sales productivity per square foot of floor area increased approximately \$24 to about \$290. This increase was the result of a decrease in floor space and an increase in total sales volume. The hours of operating in the typical LILLY DIGEST pharmacy remained unchanged for 1989 at 60 hours per week.

A modest decrease (0.2%) in prescriptions dispensed, accompanied by a rise of \$1.77 (10.7%) in the average prescription charge resulted in increased prescription sales. The average prescription charge in 1989 was \$18.37. The upward trend in

the average prescription charge noted over the past several years is often cited as evidence that prescription prices are rising. However, this statistic alone may not support such a conclusion since it is not known if the average number of days of therapy have increased, decreased, or remained the same. The share of new prescription activity decreased to 51.9% of total prescriptions from 54% the previous year.

Prescription sales per pharmacy hour open increased by 10.4% during 1989 to more than \$187. Prescriptions dispensed per hour remained unchanged at 10.2. Partly as a result of a decrease in hours open per week, this figure has generally increased during the past decade.

Balance Sheet

Table 2 summarizes the Balance Sheet Data submitted by 1,019 pharmacies. When compared with 1988 data, net working capital increased by \$4,002. The rise in current assets came from increases in cash, accounts receivable, and inventory. Although current assets and current liabilities showed an increase in dollars, both decreased as a percent of total sales.

Dollars of total liability decreased in 1989, dropping to 10.2% of total sales versus 11.0% the previous year. Net worth increased \$3,341 (up 3.8%) during 1989. Return on investment (ie, net profit on net worth) increased to 23.3% of total sales, a substantial increase from the 20.9% reported the previous year.

Table 1

Current trends in pharmacy operations

Averages per Pharmacy	1989 (1,684 Pharmacies)	1988 (1,858 Pharmacies)	Amount and Percent of Change
Sales			
Prescription	\$584,539— 72.1%	\$529,360— 68.9%	+ \$55,179—10.4%
Other	226,002— 27.9%	238,452— 31.1%	— \$12,450— 5.2%
Total sales	\$810,541—100.0%	\$767,812—100.0%	+ \$42,729— 5.6%
Cost of goods sold	558,124— 68.9%	525,731— 68.5%	+ \$32,393— 6.2%
Gross margin	\$252,417— 31.1%	\$242,081— 31.5%	+ \$10,336— 4.3%
Expenses			
Proprietor's salary	\$ 48,125— 5.9%	\$ 45,535— 5.9%	+ \$ 2,590— 5.7%
Employees' wages	75,298— 9.3%	72,658— 9.5%	+ \$ 2,640— 3.6%
Rent	18,798— 2.3%	17,976— 2.3%	+ \$ 822— 4.6%
Utilities	7,726— 1.0%	7,785— 1.0%	— \$ 59— 0.8%
Accounting, legal, and other professional fees	3,403— 0.4%	3,158— 0.4%	+ \$ 245— 7.8%
Taxes (except on buildings, income, and profit) and licenses	11,196— 1.4%	10,720— 1.4%	+ \$ 476— 4.4%
Insurance (except on buildings)	8,686— 1.1%	8,165— 1.1%	+ \$ 521— 6.4%
Interest paid	5,414— 0.7%	5,150— 0.7%	+ \$ 264— 5.1%
Computer	3,206— 0.4%	2,804— 0.4%	+ \$ 402—14.3%
Depreciation (except on buildings)	7,655— 0.9%	7,838— 1.0%	— \$ 183— 2.3%
Miscellaneous	38,018— 4.7%	37,042— 4.8%	+ \$ 976— 2.6%
Total expenses	\$227,525— 28.1%	\$218,831— 28.5%	+ \$ 8,694— 4.0%
Net profit (before taxes)	\$ 24,892— 3.1%	\$ 23,250— 3.0%	+ \$ 1,642— 7.1%
Proprietor's withdrawals	48,125— 5.9%	45,535— 5.9%	+ \$ 2,590— 5.7%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 73,017— 9.0%	\$ 68,785— 8.9%	+ \$ 4,232— 6.2%
Value of inventory at cost and as a percent of sales			
Prescription	\$ 59,469— 10.2%	\$ 53,931— 10.2%	+ \$ 5,538—10.3%
Other	47,835— 21.2%	48,605— 20.4%	— \$ 770— 1.6%
Total value	\$107,304— 13.2%	\$102,536— 13.4%	+ \$ 4,768— 4.7%
Annual rate of inventory turnover	5.4 times	5.1 times	
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	460 \$1,270.74	464 \$1,140.86	— 4— 0.9%
Other	2,333 96.87	2,415 98.74	— 82— 3.4%
Total size	2,793 \$ 290.20	2,879 \$ 266.69	— 86— 3.0%
Number of prescriptions dispensed			
New	16,510— 51.9%	17,210— 54.0%	— 700— 4.1%
Renewed	15,310— 48.1%	14,681— 46.0%	+ 629— 4.3%
Total prescriptions dispensed	31,820—100.0%	31,891—100.0%	— 71— 0.2%
Prescription charge	\$18.37	\$16.60	+ \$ 1.77—10.7%
Number of hours per week			
Pharmacy was open	60 hours	60 hours	0
Worked by proprietor	55 hours	54 hours	+ 1
Worked by employed pharmacist(s)	26 hours	30 hours	— 4
Sales and prescription activity per pharmacy hour open			
Prescription sales	\$187.35	\$169.67	+ \$ 17.68—10.4%
Other sales	\$ 72.44	\$ 76.43	— \$ 3.99— 5.2%
Prescriptions dispensed	10.2	10.2	0
Percent of total prescriptions covered by			
Medicaid	16.8%	17%	
Other third party	22.3%	23%	

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription volume that appear in one of the 30 arrangements in "The Heart of the LILLY DIGEST" (pages 13-24).

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1989 (1,019 Pharmacies)		December 31, 1988 (1,055 Pharmacies)		Amount and Percent of Change
		Percent of Sales		Percent of Sales	
Assets					
Current assets					
Cash	\$ 21,924—	14.6%	\$ 19,805—	13.4%	+ \$ 2,119—10.7%
Accounts receivable	25,083—	16.7%	24,165—	16.4%	+ \$ 918— 3.8%
Inventory	79,617—	53.0%	77,151—	52.3%	+ \$ 2,466— 3.2%
Total current assets	\$126,624—	84.2%	\$121,121—	82.1%	+ \$ 5,503— 4.5%
Fixed assets less depreciation	16,754—	11.1%	19,116—	13.0%	— \$ 2,362—12.4%
Other assets					
Prepaid expenses, deposits, etc.	6,952—	4.7%	7,290—	4.9%	— \$ 338— 4.6%
Total assets*	<u>\$150,330—</u>	<u>100.0%</u>	<u>\$147,527—</u>	<u>100.0%</u>	<u>+ \$ 2,803— 1.9%</u>
Liabilities					
Current and accrued liabilities					
Accounts payable	\$ 22,219—	14.8%	\$ 20,890—	14.2%	+ \$ 1,329— 6.4%
Notes payable (within one year)	7,143—	4.8%	7,431—	5.0%	— \$ 288— 3.9%
Accrued expenses and other liabilities	6,446—	4.3%	5,986—	4.1%	+ \$ 460— 7.7%
Total current and accrued liabilities	\$ 35,808—	23.8%	\$ 34,307—	23.3%	+ \$ 1,501— 4.4%
Long-term liabilities					
Notes payable (later than one year)	23,499—	15.6%	25,538—	17.3%	— \$ 2,039— 8.0%
Total liabilities	<u>\$ 59,307—</u>	<u>39.5%</u>	<u>\$ 59,845—</u>	<u>40.6%</u>	<u>— \$ 538— 0.9%</u>
Net Worth	91,023—	60.5%	87,682—	59.4%	+ \$ 3,341— 3.8%
Total liabilities and net worth*	<u>\$150,330—</u>	<u>100.0%</u>	<u>\$147,527—</u>	<u>100.0%</u>	<u>+ \$ 2,803— 1.9%</u>
Net working capital	\$ 90,816	15.7%	\$ 86,814	16.0%	+ \$ 4,002— 4.6%
Sales	\$578,189	100.0%	\$542,805	100.0%	+ \$35,384— 6.5%
Purchases	\$399,239	69.0%	\$370,923	68.3%	+ \$28,316— 7.6%
Net profit (before taxes)	\$ 21,218	3.7%	\$ 18,348	3.4%	+ \$ 2,870—15.6%
Financial Ratios					
Current assets to current liabilities	3.5 times		3.5 times		
Net sales to net worth	6.4 times		6.2 times		
Net profit (before taxes) on net worth	23.3%		20.9%		
Total debt to net worth	65.2%		68.3%		

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

SALES VOLUME SUMMARY

Maximizing sales is one of the major objectives of pharmacy management. However, it is equally important to control operating and merchandise costs so that adequate net profit and return on investment are realized. Sales volume and growth provide the foundation for a successful operation, but any sales program must be operated efficiently to ensure the continuation of the business. Careful consideration should be given to the kind of operation being studied when the data are used for comparative purposes since sales volume, operating expenses, and net profit vary among different types of pharmacies.

Table 3 demonstrates the differences in selected operating statistics relative to total sales. Generally, as sales volume increases, gross margin and expenses decrease as a percent of total sales. Usually as sales advance, proprietor's/manager's salary decreases as a percent of sales, but increases in dollars. The trend of employee wages is to increase in dollars and as a percent of total sales as sales increase.

Gross Margin

The gross margin as a percent of total revenue tends to decrease as sales volume advances. It is interesting that the ratio of prescription sales to total sales also falls, meaning that large-volume operations are probably associated with more front-end merchandising. Pharmacies with total sales under \$400,000 reported prescription revenue as 81.0% of sales and a gross margin of 33.0% on total sales in less than 1,700 square feet. Stores with sales in excess of \$1,500,000 recorded prescription activity amounting to 64.4% of total sales and a gross margin of 30.1% in over 5,700 square feet. Since the high-volume stores averaged both a lower share of prescription revenue and gross margin, a greater proportion of sales were evidently derived from depart-

ments generating margins lower than those in the professional area. These stores may also be located in highly competitive areas, a fact that may account for a lower gross margin.

Expenses

Since many expenses incurred by a pharmacy are fixed, total expenses appear high as a percent of sales when sales volume is below \$400,000, as in a newly opened operation. As sales grow, this fixed portion tends to decline percentage-wise and may result in a decrease in total expenses as a percent of total sales.

Compensation

The total wage package generally represents over 50% of the total expense figure and, therefore, has a major influence on net profit. Proprietor's/manager's salary increases from over \$31,000 in the lowest-volume pharmacies to over \$73,000 in stores generating over \$1,500,000 in sales. However, the percent declined from 10.8% of total revenue in low-volume stores to 3.5% in high-volume stores. Employees' wages showed the opposite trend; they ranged from 5.5% of sales in the smallest sales category to 11.4% in the highest. This greater expenditure for employees' wages in higher dollar volume stores may be associated with a larger staff needed to operate a merchandise-oriented pharmacy having longer business hours. The increased prescription activity in high-volume units, with the corresponding increase in employed pharmacist hours, could be a major contributor to the high employees' wage figure.

Miscellaneous Operating Costs

As a percent of sales, this expense figure moves in a relatively narrow range and shows no definitive trend as sales advance. Since these miscellaneous costs account for about one third of total expenses, control of each expense item must be maintained to ensure

acceptable profitability. Computer expenses are included in miscellaneous operating costs and may be substantial in some pharmacies; however, the benefits of computers in pharmacies seem to indicate that computers enhance the productivity of personnel and decrease other expenses (such as employees' wages).

Rent

Generally, rent remains a relatively constant percentage of total revenue as sales advance. However, rental dollars vary according to pharmacy size and location. In newer operations, rent as a percent of sales may appear high because full sales potential has not been attained. This subject is discussed more thoroughly on pages 10 and 11.

Net Profit

Net profit as a percent of sales is maximized in stores with total revenue of \$500,000 to \$600,000. Interestingly, the lowest and highest sales volume pharmacies tend to show a smaller net profit as a percent of sales than do the mid-range stores. Net profit is discussed further on page 12.

Inventory

Typically, the largest investment in the average independent retail pharmacy is merchandise inventory, and, as such, its control significantly influences profit. A successfully implemented inventory control program takes into account such things as purchasing goods commensurate with sales, seasonal variation, changing usage patterns, and monitoring for pilferage. The challenge of productive inventory management is to support an upward trend in sales while keeping the investment at the lowest level consistent with adequate customer service. One method of assessing the effectiveness of an inventory control program is the turnover rate. The turnover rate represents the average number of times inventory is sold and replaced during the year.

Table 3 indicates that the turnover rate tends to increase with total sales even though the inventory dollar investment rises.

Pharmacy Hours

As shown in Table 3, the number of hours a pharmacy is open is directly related to sales volume. During 1989,

the average LILLY DIGEST pharmacy was open 60 hours per week—a number unchanged from the previous year (Table 1). Pharmacies in the lower sales category (under \$400,000) were open an average of 51 hours per week. Stores with annual sales more than \$1,500,000 averaged 74 hours of operation per week. Pharmacy

managers should analyze the number of hours open relative to the gross margin contribution of each hour. Competition and/or physician office hours should also be considered in this review. A decision concerning an extension of business hours should predict the impact on profit by considering both a projection of sales productivity

Table 3 *Summary of sales volume in 1989*

Averages per Pharmacy	Total Sales Under \$400,000 (281 Pharmacies)	Total Sales \$400,000 to \$450,000 (94 Pharmacies)	Total Sales \$450,000 to \$500,000 (129 Pharmacies)
Sales			
Prescription	\$237,618— 81.0%	\$339,132— 79.5%	\$389,672— 82.0%
Other	55,816— 19.0%	87,516— 20.5%	85,273— 18.0%
Total sales	\$293,434—100.0%	\$426,648—100.0%	\$474,945—100.0%
Cost of goods sold	196,569— 67.0%	287,983— 67.5%	323,748— 68.2%
Gross margin	\$ 96,865— 33.0%	\$138,665— 32.5%	\$151,197— 31.8%
Expenses			
Proprietor's or manager's salary	\$ 31,810— 10.8%	\$ 38,448— 9.0%	\$ 38,444— 8.1%
Employees' wages	16,217— 5.5%	28,090— 6.6%	30,905— 6.5%
Rent	8,847— 3.0%	10,959— 2.6%	11,827— 2.5%
Miscellaneous operating costs	34,521— 11.8%	44,693— 10.5%	53,840— 11.3%
Total expenses	\$ 91,395— 31.1%	\$122,190— 28.6%	\$135,016— 28.4%
Net profit (before taxes)	\$ 5,470— 1.9%	\$ 16,475— 3.9%	\$ 16,181— 3.4%
Proprietor's withdrawals	31,810— 10.8%	38,448— 9.0%	38,444— 8.1%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 37,280— 12.7%	\$ 54,923— 12.9%	\$ 54,625— 11.5%
Value of inventory at cost and as a percent of sales			
Prescription	\$ 32,048— 13.5%	\$ 37,552— 11.1%	\$ 46,293— 11.9%
Other	14,654— 26.3%	21,315— 24.4%	20,817— 24.4%
Total value	\$ 46,702— 15.9%	\$ 58,867— 13.8%	\$ 67,110— 14.1%
Annual rate of inventory turnover	4.3 times	5.0 times	4.9 times
Size of area and sales per square foot*	sq. ft. 1,663 \$176.45	sq. ft. 1,916 \$222.68	sq. ft. 1,854 \$256.17
Number of prescriptions dispensed			
New	7,086— 53.1%	9,511— 51.4%	10,424— 49.2%
Renewed	6,250— 46.9%	8,998— 48.6%	10,762— 50.8%
Total prescriptions dispensed	13,336—100.0%	18,509—100.0%	21,186—100.0%
Prescription charge	\$17.82	\$18.32	\$18.39
Number of hours per week			
Pharmacy was open	51 hours	53 hours	54 hours
Worked by proprietor	47 hours	53 hours	48 hours
Worked by employed pharmacist(s)	9 hours	12 hours	12 hours
Percent of total prescriptions covered by:			
Medicaid	17.4%	17.3%	16.5%
Other third party	19.6%	20.2%	15.9%

*Based on averages of pharmacies that reported all data

and the additional expense incurred. During 1989, the number of hours worked by the proprietor was 55 hours per week (Table 1), a number nearly unchanged from the previous year. In contrast, the number of hours worked by employee pharmacists decreased when compared with 1988. A possible reason for this decrease may

be the expanded use of non-pharmacist auxiliary personnel and/or mechanical methods to increase productivity.

Third-Party Prescription Activity

Third-party prescriptions made up 39.1% of the average LILLY DIGEST pharmacy prescription volume in 1989 (Table 1). This is a slight decrease from

the previous year. It is interesting to note that stores reporting revenue exceeding \$1,500,000 filled over 45% of their prescriptions for patients who had third-party prescription coverage (Table 3). In these stores, 27.8% of the prescriptions were covered by third-party plans other than Medicaid.

Total Sales \$500,000 to \$600,000 (213 Pharmacies)	Total Sales \$600,000 to \$750,000 (259 Pharmacies)	Total Sales \$750,000 to \$1,000,000 (309 Pharmacies)	Total Sales \$1,000,000 to \$1,500,000 (257 Pharmacies)	Total Sales Over \$1,500,000 (153 Pharmacies)
\$428,148— 78.3%	\$502,360— 75.4%	\$643,297— 73.9%	\$ 840,186— 69.4%	\$1,340,440— 64.4%
118,399— 21.7%	164,298— 24.6%	227,676— 26.1%	371,144— 30.6%	742,471— 35.6%
\$546,547—100.0%	\$666,658—100.0%	\$870,973—100.0%	\$1,211,330—100.0%	\$2,082,911—100.0%
372,638— 68.2%	458,793— 68.8%	601,465— 69.1%	831,866— 68.7%	1,456,585— 69.9%
\$173,909— 31.8%	\$207,865— 31.2%	\$269,508— 30.9%	\$ 379,464— 31.3%	\$ 626,326— 30.1%
\$ 39,899— 7.3%	\$ 47,365— 7.1%	\$ 52,391— 6.0%	\$ 61,331— 5.1%	\$ 73,557— 3.5%
40,982— 7.5%	52,441— 7.9%	79,455— 9.1%	128,227— 10.6%	237,477— 11.4%
12,837— 2.3%	15,360— 2.3%	21,726— 2.5%	27,894— 2.3%	40,116— 1.9%
57,376— 10.5%	71,802— 10.8%	86,969— 10.0%	125,224— 10.3%	219,141— 10.5%
\$151,094— 27.6%	\$186,968— 28.0%	\$240,541— 27.6%	\$ 342,676— 28.3%	\$ 570,291— 27.4%
\$ 22,815— 4.2%	\$ 20,897— 3.1%	\$ 28,967— 3.3%	\$ 36,788— 3.0%	\$ 56,035— 2.7%
39,899— 7.3%	47,365— 7.1%	52,391— 6.0%	61,331— 5.1%	73,557— 3.5%
\$ 62,714— 11.5%	\$ 68,262— 10.2%	\$ 81,358— 9.3%	\$ 98,119— 8.1%	\$ 129,592— 6.2%
\$ 46,935— 11.0%	\$ 51,536— 10.3%	\$ 67,161— 10.4%	\$ 79,529— 9.5%	\$ 116,160— 8.7%
26,850— 22.7%	41,413— 25.2%	49,413— 21.7%	75,065— 20.2%	138,048— 18.6%
\$ 73,785— 13.5%	\$ 92,949— 13.9%	\$116,574— 13.4%	\$ 154,594— 12.8%	\$ 254,208— 12.2%
5.2 times	5.1 times	5.4 times	5.5 times	5.9 times
sq. ft. 2,024 \$270.03	sq. ft. 2,539 \$262.57	sq. ft. 2,946 \$295.65	sq. ft. 3,790 \$319.61	sq. ft. 5,792 \$359.62
12,239— 50.9%	13,854— 50.7%	18,152— 52.4%	23,357— 51.6%	38,655— 53.0%
11,789— 49.1%	13,448— 49.3%	16,509— 47.6%	21,877— 48.4%	34,234— 47.0%
24,028—100.0%	27,302—100.0%	34,661—100.0%	45,234—100.0%	72,889—100.0%
\$17.82	\$18.40	\$18.56	\$18.57	\$18.39
57 hours 51 hours 16 hours	59 hours 55 hours 20 hours	62 hours 55 hours 29 hours	66 hours 60 hours 40 hours	74 hours 66 hours 67 hours
18.2%	15.1%	17.5%	15.2%	17.6%
19.7%	22.0%	25.0%	24.8%	27.8%

PRESCRIPTION ACTIVITY

LILLY DIGEST data show that prescription department sales have expanded steadily over the past two decades. The prescription revenue has increased from 43.7% of total sales in 1969 to 72.1% in 1989. This suggests that economic health of the average independent retail pharmacy may be closely associated with a healthy prescription department.

Table 4 presents operating statistics according to daily prescription activity. When the number of prescriptions

dispensed daily increases, generally total sales volume also increases. Usually, as the prescription sales share of total revenue increases, gross margin tends to decrease as a percent of total sales. Employee wages as a percent of total revenue increase as sales advance, but proprietor/manager salary decreases. Overall, total wage package (proprietor's salary and employees' wages) moves in a range from 15.1% to 17.7% of total sales.

Pharmacist hours worked per week

increase as daily prescription activity increases, with most managers adding a full-time pharmacist (40 pharmacist hours per week) when prescription activity reaches 150 prescriptions per day. Prescription inventory decreases as a percent of total prescription sales as more prescriptions are dispensed. As prescription activity rises, the inventory turnover rate shows steady improvement—from 3.0 times per year when prescription volume is under 25 per day to 6.5 times per year in stores

Table 4 *Summary by number of prescriptions dispensed daily in 1989*

Averages per Pharmacy	Under 25 Prescriptions Daily (45 Pharmacies)	25 to 35 Prescriptions Daily (69 Pharmacies)	35 to 50 Prescriptions Daily (162 Pharmacies)	50 to 60 Prescriptions Daily (161 Pharmacies)
Sales				
Prescription	\$141,218— 49.8%	\$197,980— 64.6%	\$269,072— 67.1%	\$334,587— 68.9%
Other	142,084— 50.2%	108,577— 35.4%	132,204— 32.9%	150,760— 31.1%
Total sales	\$283,302—100.0%	\$306,557—100.0%	\$401,276—100.0%	\$485,347—100.0%
Cost of goods sold	192,006— 67.8%	200,427— 65.4%	271,468— 67.7%	328,546— 67.7%
Gross margin	\$ 91,296— 32.2%	\$106,130— 34.6%	\$129,808— 32.3%	\$156,801— 32.3%
Expenses				
Proprietor's or manager's salary	\$ 29,962— 10.6%	\$ 31,808— 10.4%	\$ 33,744— 8.4%	\$ 38,030— 7.8%
Employees' wages	19,099— 6.7%	22,427— 7.3%	29,570— 7.4%	37,952— 7.8%
Rent	10,275— 3.6%	10,615— 3.5%	12,571— 3.1%	13,166— 2.7%
Miscellaneous operating costs	31,899— 11.3%	35,119— 11.5%	46,464— 11.6%	57,542— 11.9%
Total expenses	\$ 91,235— 32.2%	\$ 99,969— 32.6%	\$122,349— 30.5%	\$146,690— 30.2%
Net profit (before taxes)	\$ 61— 0.0%	\$ 6,161— 2.0%	\$ 7,459— 1.9%	\$ 10,111— 2.1%
Proprietor's withdrawals	29,962— 10.6%	31,808— 10.4%	33,744— 8.4%	38,030— 7.8%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 30,023— 10.6%	\$ 37,969— 12.4%	\$ 41,203— 10.3%	\$ 48,141— 9.9%
Value of inventory at cost and as a percent of sales				
Prescription	\$ 25,074— 17.8%	\$ 26,013— 13.1%	\$ 38,362— 14.3%	\$ 38,075— 11.4%
Other	42,189— 29.7%	24,742— 22.8%	28,565— 21.6%	37,119— 24.6%
Total value	\$ 67,263— 23.7%	\$ 50,755— 16.6%	\$ 66,927— 16.7%	\$ 75,194— 15.5%
Annual rate of turnover of inventory	3.0 times	4.0 times	4.1 times	4.5 times
Size of area and sales per square foot*	sq. ft. 1,707 \$165.96	sq. ft. 1,881 \$162.98	sq. ft. 2,035 \$197.19	sq. ft. 2,447 \$198.34
Number of prescriptions dispensed				
New	3,029— 54.4%	5,012— 52.2%	7,127— 51.8%	9,025— 52.0%
Renewed	2,540— 45.6%	4,588— 47.8%	6,629— 48.2%	8,324— 48.0%
Total prescriptions dispensed	5,569—100.0%	9,600—100.0%	13,756—100.0%	17,349—100.0%
Prescription charge	\$25.36	\$20.62	\$19.56	\$19.29
Number of hours per week				
Pharmacy was open	51 hours	50 hours	55 hours	56 hours
Worked by proprietor	54 hours	50 hours	54 hours	51 hours
Worked by employed pharmacist(s)	9 hours	6 hours	12 hours	17 hours
Percent of total prescriptions covered by:				
Medicaid	15.4%	16.4%	17.4%	15.3%
Other third party	19.2%	17.5%	18.8%	19.2%

*Based on averages of pharmacies that reported all data

averaging over 200 prescriptions per day. It is important to note that as turnover increases, usually sales per square foot also advances.

Table 4 indicates that the share of new prescriptions filled moves in a range from 50.8% to 54.4% of all prescriptions. It is interesting to note that stores with prescription activity under 25 per day and stores that fill over 200 prescription daily have the highest percents of new prescriptions.

Most state laws require that a regis-

tered pharmacist be present whenever the prescription department is open for business, even though the prescription workload may not warrant it. Therefore, the number of prescriptions dispensed per available pharmacist hour may be low in pharmacies with limited prescription volume. With increasing sales and prescription activity, management may devote more time to nonprescription tasks, which results in the need for additional professional staff "behind the counter." Pharmacists in the highest

daily prescription category filled about 25 prescriptions per hour open. In addition to having more prescriptions to dispense, this level of productivity may also be associated with use of automated equipment and pharmacy technicians.

Table 4 shows that the percent of third-party prescriptions generally increases as the number of prescriptions dispensed daily grows. Operations that dispense over 100 prescriptions daily indicate they fill over 40% of their prescriptions for third-party plans (including Medicaid).

60 to 75 Prescriptions Daily (264 Pharmacies)	75 to 100 Prescriptions Daily (346 Pharmacies)	100 to 125 Prescriptions Daily (220 Pharmacies)	125 to 150 Prescriptions Daily (154 Pharmacies)	150 to 200 Prescriptions Daily (159 Pharmacies)	Over 200 Prescriptions Daily (115 Pharmacies)
\$401,348— 70.5%	\$518,969— 73.7%	\$663,932— 73.3%	\$ 780,100— 71.2%	\$ 936,232— 70.5%	\$1,495,335— 77.6%
168,072— 29.5%	185,330— 26.3%	241,708— 26.7%	315,802— 28.8%	392,227— 29.5%	432,811— 22.4%
\$569,420—100.0%	\$704,299—100.0%	\$905,640—100.0%	\$1,095,902—100.0%	\$1,328,459—100.0%	\$1,928,146—100.0%
388,331— 68.2%	483,330— 68.6%	625,375— 69.1%	761,106— 69.5%	928,552— 69.9%	1,332,536— 69.1%
\$181,089— 31.8%	\$220,969— 31.4%	\$280,265— 30.9%	\$ 334,796— 30.5%	\$ 399,907— 30.1%	\$ 595,610— 30.9%
\$ 41,632— 7.3%	\$ 46,113— 6.5%	\$ 54,313— 6.0%	\$ 57,659— 5.3%	\$ 61,597— 4.6%	\$ 76,369— 4.0%
44,350— 7.8%	59,214— 8.4%	82,810— 9.1%	107,504— 9.8%	131,110— 9.9%	227,922— 11.8%
15,998— 2.8%	16,462— 2.3%	21,008— 2.3%	23,749— 2.2%	28,474— 2.1%	32,151— 1.7%
63,442— 11.1%	74,138— 10.5%	92,455— 10.2%	109,503— 10.0%	134,309— 10.1%	196,870— 10.2%
\$165,422— 29.1%	\$195,927— 27.8%	\$250,586— 27.7%	\$ 298,415— 27.2%	\$ 355,490— 26.8%	\$ 533,312— 27.7%
\$ 15,667— 2.8%	\$ 25,042— 3.6%	\$ 29,679— 3.3%	\$ 36,381— 3.3%	\$ 44,417— 3.3%	\$ 62,298— 3.2%
41,632— 7.3%	46,113— 6.5%	54,313— 6.0%	57,659— 5.3%	61,597— 4.6%	76,369— 4.0%
\$ 57,299— 10.1%	\$ 71,155— 10.1%	\$ 83,992— 9.3%	\$ 94,040— 8.6%	\$ 106,014— 8.0%	\$ 138,667— 7.2%
\$ 45,890— 11.4%	\$ 54,441— 10.5%	\$ 64,241— 9.7%	\$ 80,840— 10.4%	\$ 86,566— 9.2%	\$ 123,917— 8.3%
42,969— 25.6%	39,810— 21.5%	47,410— 19.6%	56,888— 18.0%	76,532— 19.5%	89,098— 20.6%
\$ 88,859— 15.6%	\$ 94,251— 13.4%	\$111,651— 12.3%	\$ 137,728— 12.6%	\$ 163,098— 12.3%	\$ 213,015— 11.0%
4.5 times	5.2 times	5.8 times	5.7 times	5.9 times	6.5 times
sq. ft. 2,469 \$230.63	sq. ft. 2,827 \$249.13	sq. ft. 2,767 \$327.30	sq. ft. 3,326 \$329.50	sq. ft. 3,853 \$344.79	sq. ft. 3,839 \$502.25
10,969— 51.8%	13,885— 50.9%	17,835— 50.8%	21,954— 51.3%	27,619— 51.8%	47,526— 53.9%
10,209— 48.2%	13,379— 49.1%	17,283— 49.2%	20,851— 48.7%	25,668— 48.2%	40,712— 46.1%
21,178—100.0%	27,264—100.0%	35,118—100.0%	42,805—100.0%	53,287—100.0%	88,238—100.0%
\$18.95	\$19.03	\$18.91	\$18.22	\$17.57	\$16.95
57 hours 53 hours 15 hours	59 hours 51 hours 25 hours	62 hours 56 hours 29 hours	65 hours 61 hours 33 hours	66 hours 57 hours 42 hours	68 hours 63 hours 62 hours
16.5% 21.8%	15.5% 21.3%	17.3% 24.6%	16.0% 24.6%	17.2% 27.2%	22.8% 24.7%

RENT

During 1989, rental expenses for the average independent community pharmacy reporting to the LILLY DIGEST increased by \$822 or 4.6% but remained unchanged as a percent of total sales (Table 1). The long-term nature of rental agreements probably accounts for the overall consistency of the rate over time. Rental agreements are usually based on sales, square footage, a flat rate, or some combination of these factors. Rent, like other expenses, should be kept in line with sales volume if an adequate net profit is to be maintained. A fair and equitable rental expenditure should be based on realistic sales and profit projections.

Table 5 summarizes rental expense as a percentage of sales according to sales volume. The distribution of this expense has not changed significantly from that reported the previous year. The majority of pharmacies—59.5% (up from 58% for 1988)—paid 2.5% of sales or less for rent. A total of

1,358, or 80.1% of participants, indicated they spent 3.5% or less of total sales on rental expense.

Table 6 shows the evaluation of rent from several perspectives. Pharmacy managers should review the entire table in order to gain a broad awareness of the influence of these variables on rental expense. Section A correlates rent with sales volume. Rent as a percent of sales tends to decline as sales increase. Larger-volume operations generally pay more for rent, but each square foot of floor area is usually more productive.

Section B correlates rental expense with pharmacy location. Larger stores tend to be located in shopping centers and produce the highest total sales average of all locations. Apothecaries and medical office building pharmacies have the smallest total sales averages and are of the smallest size, but they rank the highest in sales and in rent per square foot.

Section C indicates that as daily prescription activity advances, there is an increase in sales volume and generally a decrease in rent as a percent of total sales. Section A supports these data.

Section D illustrates the influence of store age on rent. Sales volume usually grows as the pharmacy matures. As stores age, they may become larger in size and pay less rent per square foot. As expected, younger operations tend to have the lowest sales volume and pay the highest rent as a percent of total sales.

Section E summarizes rent expense according to geographic region. The Pacific states reported the highest rent as a percent of total sales, but the New England states reported the highest rent per square foot. The Mountain states again reported the largest stores and lowest rent per square foot.

Table 5 *Rental percentages by annual sales volume*

	Under \$400,000	\$400,000- \$450,000	\$450,000- \$500,000	\$500,000- \$600,000	\$600,000- \$750,000	\$750,000- \$1,000,000	\$1,000,000- \$1,500,000	Over \$1,500,000	Total	Percent of Pharmacies
Number of Pharmacies	281	94	129	213	259	309	257	153	1,695	100.0%
Rent as a Percent of Sales										
Less than 1.5%	48	19	31	66	72	82	79	62	459	27.1%
1.5% to 2.5%	78	39	52	61	90	105	81	44	550	32.4%
2.5% to 3.5%	55	14	23	47	58	66	53	33	349	20.6%
3.5% to 4.5%	42	11	10	17	16	23	26	9	154	9.1%
4.5% to 5.5%	28	7	5	10	13	19	10	4	96	10.8%
5.5% to 6.5%	13	2	4	7	5	7	4	1	43	
6.5% to 7.5%	4	1	1	3	4	6	4	—	23	
7.5% to 8.5%	4	—	1	2	1	—	—	—	8	
8.5% to 9.5%	2	1	1	—	—	—	—	—	4	
9.5% to 10.5%	4	—	—	—	—	—	—	—	4	
10.5% to 11.5%	1	—	—	—	—	—	—	—	1	
11.5% to 12.5%	2	—	1	—	—	1	—	—	4	

Table 6 *Rent correlated with various factors*

	Average Sales	Size of Pharmacy (Sq. Ft.)	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
A Annual sales						
Under \$400,000	\$ 293,434	1,663	\$176.45	\$ 8,847	\$ 5.32	3.0%
\$400,000 to \$450,000	426,648	1,916	222.68	10,959	5.72	2.6%
\$450,000 to \$500,000	474,945	1,854	256.17	11,827	6.38	2.5%
\$500,000 to \$600,000	546,547	2,024	270.03	12,837	6.34	2.3%
\$600,000 to \$750,000	666,658	2,539	262.57	15,360	6.05	2.3%
\$750,000 to \$1,000,000	870,973	2,946	295.65	21,726	7.37	2.5%
\$1,000,000 to \$1,500,000	1,211,330	3,790	319.61	27,894	7.36	2.3%
Over \$1,500,000	2,082,911	5,792	359.62	40,116	6.93	1.9%
B Location						
Rural						
Apothecary	\$ 667,876	1,267	\$527.13	\$12,813	\$10.11	1.9%
Shopping center	995,900	3,888	256.15	28,285	7.27	2.8%
Medical office building	628,336	1,183	531.14	18,130	15.33	2.9%
Traditional	793,272	3,041	260.86	14,982	4.93	1.9%
Metropolitan						
Apothecary	\$ 598,951	1,298	\$461.44	\$12,115	\$ 9.33	2.0%
Shopping center	1,194,102	4,714	253.31	35,336	7.50	3.0%
Medical office building	727,675	1,390	523.51	23,341	16.79	3.2%
Traditional	884,208	3,034	291.43	21,838	7.20	2.5%
C Number of prescriptions dispensed daily						
Under 25	\$ 283,302	1,707	\$165.96	\$10,275	\$ 6.02	3.6%
25 to 35	306,557	1,881	162.98	10,615	5.64	3.5%
35 to 50	401,276	2,035	197.19	12,571	6.18	3.1%
50 to 60	485,347	2,447	198.34	13,166	5.38	2.7%
60 to 75	569,420	2,469	230.63	15,998	6.48	2.8%
75 to 100	704,299	2,827	249.13	16,462	5.82	2.3%
100 to 125	905,640	2,767	327.30	21,008	7.59	2.3%
125 to 150	1,095,902	3,326	329.50	23,749	7.14	2.2%
150 to 200	1,328,459	3,853	344.79	28,474	7.39	2.1%
Over 200	1,928,146	3,839	502.25	32,151	8.37	1.7%
D Number of years pharmacy has been in operation						
Less than 2 years	\$ 687,814	2,184	\$314.93	\$20,235	\$ 9.27	2.9%
2 to 5 years	681,432	2,389	285.24	16,860	7.06	2.5%
5 to 10 years	739,347	2,474	298.85	17,232	6.97	2.3%
Over 10 years	880,894	3,127	281.71	19,435	6.22	2.2%
E Geographic region						
New England States	\$1,087,680	2,983	\$364.63	\$25,456	\$ 8.53	2.3%
Middle Atlantic States	962,236	2,641	364.35	21,376	8.09	2.2%
East North Central States	905,476	2,946	307.36	19,257	6.54	2.1%
West North Central States	692,970	2,521	274.88	15,906	6.31	2.3%
South Atlantic States	761,471	2,657	286.59	16,409	6.18	2.2%
East South Central States	744,587	2,635	282.58	13,951	5.29	1.9%
West South Central States	655,493	2,525	259.60	16,568	6.56	2.5%
Mountain States	733,339	3,725	196.87	19,576	5.26	2.7%
Pacific States	796,806	2,994	266.13	23,768	7.94	3.0%
LILLY DIGEST average	810,541	2,793	290.20	18,798	6.73	2.3%

*Based on averages of pharmacies that reported all data

NET PROFIT

When a pharmacy continually shows a loss, it is often necessary to borrow the capital required to maintain normal operations. The interest expenses incurred in such loans further erode net profits. If too many losses are sustained, borrowing may become difficult; eventually,

lenders may refuse loans to these businesses. Without the required capital, either from lenders' or owners' investment, such businesses fail, and their services are lost to the community.

Table 7 indicates that 15% of all pharmacies reporting 1989 data to the LILLY DIGEST operated at a loss, down

from 17% in 1988. In addition, 22% realized a net profit of less than 2%, an increase from the 20% reported last year. At the other end of the profit range, 15% (in contrast to 13% in 1988) provided a net profit before taxes of 10% or greater.

Table 7 *Net profit according to sales volume*

	Under \$400,000	\$400,000-\$450,000	\$450,000-\$500,000	\$500,000-\$600,000	\$600,000-\$750,000	\$750,000-\$1,000,000	\$1,000,000-\$1,500,000	Over \$1,500,000	1989	1988
Number of Pharmacies	281	94	129	213	259	309	257	153	1,695	1,858
Net Profit as a Percent of Sales										
Operating at a loss	27%	14%	17%	15%	15%	14%	11%	7%	15%	17%
Less than 2%	20%	20%	13%	16%	20%	22%	26%	37%	22%	20%
2% to 5%	21%	22%	21%	27%	27%	27%	33%	27%	26%	28%
5% to 7.5%	12%	15%	21%	11%	18%	13%	13%	16%	14%	14%
7.5% to 10%	6%	11%	12%	11%	7%	10%	6%	5%	8%	8%
10% and over	14%	18%	16%	20%	13%	14%	11%	8%	15%	13%

Turnover Comparison

Table 8 presents selected operating statistics from two groups of pharmacies—those with a high rate of inventory turnover and stores with a low turnover rate. These figures show that by controlling inventory investment and maintaining a high turnover rate, pharmacy proprietors can improve their income as a percent of total sales. On average, pharmacies in the high turnover group had lower inventories as a

percent of sales; however, the cost of goods sold was higher, resulting in a gross margin lower than that in the low turnover group. The lower gross margin may be compensated for by the lower costs associated with carrying a smaller inventory. Because of this expense control, pharmacies with the high turnover rate produced a higher total income (proprietor's salary plus net profit) as a percent of total revenue.

Break-Even Point

The calculated break-even point for the 1,684 pharmacies reporting to the LILLY DIGEST was reached in 9.8 months, when 81.6% of total sales had been recorded—down slightly from 9.9 months in 1988. At the break-even point, all fixed costs of operation for the year are covered as are the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit. Below, break-even points for selected years are shown in terms of both time and sales:

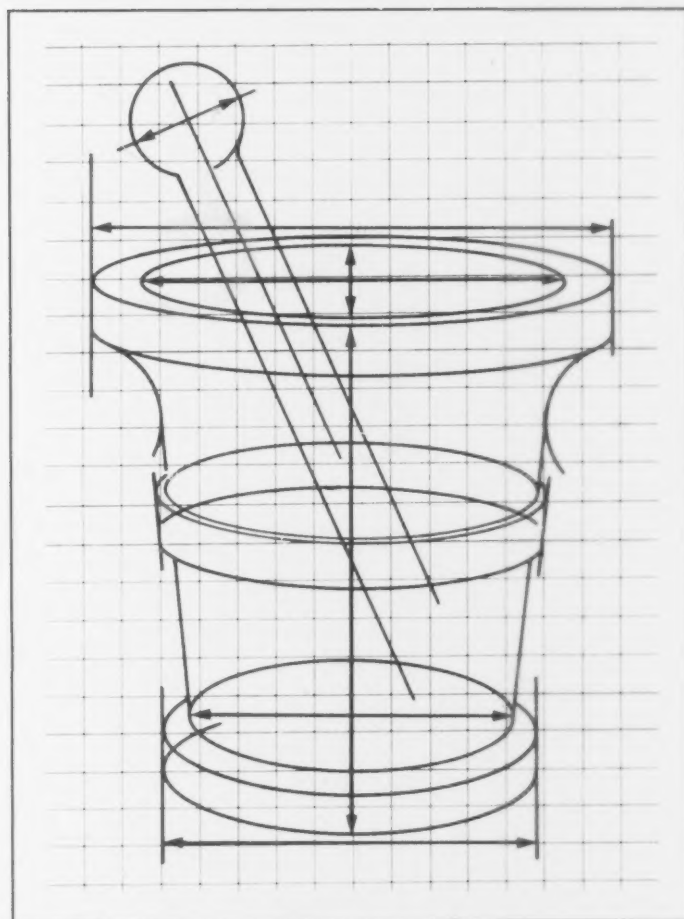
Break-Even Point

	Months	Percent of Sales
1989	9.8	81.6%
1988	9.9	82.5%
1987	9.6	80.0%
1986	10.2	85.0%
1985	10.2	85.0%

Table 8 *Turnover comparison (percent of sales)*

	High Turnover (279 Pharmacies)	Low Turnover (371 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	70.2%	66.4%
Gross margin	29.8%	33.6%
Employees' wages	8.1%	10.2%
Rent and miscellaneous expenses	11.6%	14.8%
Total expenses (less proprietor's salary)	19.7%	25.0%
Total income (proprietor's salary plus net profit)	10.0%	8.5%
Total inventory	6.6%	20.2%
Inventory turnover	10.6 times	3.3 times

THE HEART OF THE LILLY DIGEST



This section contains 30 categories of operating averages arranged according to both annual sales volume and daily prescription activity.

A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.

The worksheet on pages 37-38 may be useful for this purpose.

Sales Under
\$400,000

TABLE

A

Averages per Pharmacy

Total Sales
Under \$400,000

Under 25
Prescriptions
Daily
(36 Pharmacies)

25 to 35
Prescriptions
Daily
(57 Pharmacies)

Sales		
Prescription	\$127,413— 68.2%	\$187,018— 76.2%
Other	59,459— 31.8%	58,515— 23.8%
Total sales	\$186,872—100.0%	\$245,533—100.0%
Cost of goods sold	123,305— 66.0%	157,789— 64.3%
Gross margin	\$ 63,567— 34.0%	\$ 87,744— 35.7%
Expenses		
Proprietor's or manager's salary	\$ 25,547— 13.7%	\$ 32,076— 13.1%
Employees' wages	10,842— 5.8%	13,988— 5.7%
Rent	7,882— 4.2%	8,260— 3.4%
Utilities	2,909— 1.6%	3,579— 1.5%
Accounting, legal, and other professional fees	1,316— 0.7%	1,577— 0.6%
Taxes (except on buildings, income, and profit) and licenses	2,932— 1.6%	3,648— 1.5%
Insurance (except on buildings)	2,121— 1.1%	3,468— 1.4%
Interest paid	1,484— 0.8%	2,414— 1.0%
Computer	634— 0.3%	2,063— 0.8%
Depreciation (except on buildings)	1,914— 1.0%	2,585— 1.1%
Miscellaneous	10,346— 5.5%	9,921— 4.0%
Total expenses	\$ 67,927— 36.3%	\$ 83,579— 34.0%
Net profit (before taxes)	\$ -4,360— -2.3%	\$ 4,165— 1.7%
Add proprietor's withdrawals	25,547— 13.7%	32,076— 13.1%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 21,187— 11.3%	\$ 36,241— 14.8%
Value of inventory at cost and as a percent of sales		
Prescription	\$ 22,943— 18.0%	\$ 24,928— 13.3%
Other	21,562— 36.3%	15,280— 26.1%
Total value	\$ 44,505— 23.8%	\$ 40,208— 16.4%
Annual rate of turnover of inventory	2.9 times	3.9 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	516 \$246.92	320 \$584.43
Other	965 61.62	1,111 52.67
Total size	1,481 \$126.18	1,431 \$171.58
Number of prescriptions dispensed		
New	3,250— 53.5%	4,922— 51.6%
Renewed	2,824— 46.5%	4,621— 48.4%
Total prescriptions dispensed	6,074—100.0%	9,543—100.0%
Prescription charge	\$20.98	\$19.60
Number of hours per week		
Pharmacy was open	50 hours	49 hours
Worked by proprietor	55 hours	46 hours
Worked by employed pharmacist(s)	3 hours	5 hours
Percent of total prescriptions covered by:		
Medicaid	16.5%	16.2%
Other third party	19.1%	17.4%

*Based on averages of pharmacies that reported all data

35 to 50
Prescriptions
Daily
(104 Pharmacies)

50 to 60
Prescriptions
Daily
(56 Pharmacies)

Over 60
Prescriptions
Daily
(28 Pharmacies)

\$252,438— 82.2%
54,767— 17.8%
\$307,205—100.0%
208,282— 67.8%
\$ 98,923— 32.2%

\$291,098— 83.0%
59,438— 17.0%
\$350,536—100.0%
239,323— 68.3%
\$111,213— 31.7%

\$320,316— 88.3%
42,285— 11.7%
\$362,601—100.0%
240,698— 66.4%
\$121,903— 33.6%

\$ 30,612— 10.0%
16,406— 5.3%
9,591— 3.1%
3,684— 1.2%
1,790— 0.6%

\$ 36,489— 10.4%
19,941— 5.7%
9,093— 2.6%
4,114— 1.2%
1,198— 0.3%

\$ 34,415— 9.5%
19,509— 5.4%
8,026— 2.2%
4,443— 1.2%
1,726— 0.5%

3,808— 1.2%
3,211— 1.0%
2,929— 1.0%
1,775— 0.6%
4,074— 1.3%
15,923— 5.2%

5,615— 1.6%
3,850— 1.1%
3,879— 1.1%
2,595— 0.7%
4,052— 1.2%
15,408— 4.4%

4,240— 1.2%
2,803— 0.8%
3,404— 0.9%
2,515— 0.7%
3,977— 1.1%
13,799— 3.8%

\$ 93,803— 30.5%
\$ 5,120— 1.7%
30,612— 10.0%

\$106,234— 30.3%
\$ 4,979— 1.4%
36,489— 10.4%

\$ 98,857— 27.3%
\$ 23,046— 6.4%
34,415— 9.5%

\$ 35,732— 11.6%

\$ 41,468— 11.8%

\$ 57,461— 15.8%

\$ 35,849— 14.2%
13,334— 24.3%

\$ 32,325— 11.1%
15,559— 26.2%

\$ 43,584— 13.6%
7,585— 17.9%

\$ 49,183— 16.0%

\$ 47,864— 13.7%

\$ 51,169— 14.1%

4.3 times

5.1 times

4.8 times

sq. ft.
364 \$693.51
1,328 41.24
1,692 \$181.56

sq. ft.
345 \$843.76
1,705 34.86
2,050 \$170.99

sq. ft.
414 \$773.71
1,104 38.30
1,518 \$238.87

7,092— 51.5%
6,667— 48.5%
13,759—100.0%

9,059— 53.0%
8,040— 47.0%
17,099—100.0%

12,457— 58.5%
8,840— 41.5%
21,297—100.0%

\$18.35

\$17.02

\$15.04

52 hours
50 hours
8 hours

53 hours
44 hours
13 hours

52 hours
39 hours
16 hours

18.5%
19.6%

15.7%
18.9%

19.6%
25.5%

Sales
\$400,000-
\$500,000

TABLE B

Averages per Pharmacy	Total Sales \$400,000-\$450,000	
	Under 60 Prescriptions Daily (49 Pharmacies)	Over 60 Prescriptions Daily (45 Pharmacies)
Sales		
Prescription	\$310,962— 73.0%	\$369,807— 86.5%
Other	114,932— 27.0%	57,663— 13.5%
Total sales	\$425,894—100.0%	\$427,470—100.0%
Cost of goods sold	290,323— 68.2%	285,435— 66.8%
Gross margin	\$135,571— 31.8%	\$142,035— 33.2%
Expenses		
Proprietor's or manager's salary	\$ 34,999— 8.2%	\$ 42,203— 9.9%
Employees' wages	28,120— 6.6%	28,056— 6.6%
Rent	10,282— 2.4%	11,695— 2.7%
Utilities	5,385— 1.3%	5,199— 1.2%
Accounting, legal, and other professional fees	1,795— 0.4%	2,591— 0.6%
Taxes (except on buildings, income, and profit) and licenses	6,144— 1.4%	5,399— 1.3%
Insurance (except on buildings)	3,919— 0.9%	3,904— 0.9%
Interest paid	4,626— 1.1%	4,181— 1.0%
Computer	1,638— 0.4%	2,611— 0.6%
Depreciation (except on buildings)	2,956— 0.7%	3,334— 0.8%
Miscellaneous	18,841— 4.4%	16,812— 3.9%
Total expenses	\$118,705— 27.9%	\$125,985— 29.5%
Net profit (before taxes)	\$ 16,866— 4.0%	\$ 16,050— 3.8%
Add proprietor's withdrawals	34,999— 8.2%	42,203— 9.9%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 51,865— 12.2%	\$ 58,253— 13.6%
Value of inventory at cost and as a percent of sales		
Prescription	\$ 34,083— 11.0%	\$ 41,329— 11.2%
Other	28,292— 24.6%	13,719— 23.8%
Total value	\$ 62,375— 14.6%	\$ 55,048— 12.9%
Annual rate of turnover of inventory	4.7 times	5.3 times
Size of area and sales per square foot*		
Prescription	sq. ft. 341 \$911.91	sq. ft. 458 \$807.44
Other	1,681 68.37	1,345 42.87
Total size	2,022 \$210.63	1,803 \$237.09
Number of prescriptions dispensed		
New	8,042— 50.7%	11,110— 51.9%
Renewed	7,822— 49.3%	10,280— 48.1%
Total prescriptions dispensed	15,864—100.0%	21,390—100.0%
Prescription charge	\$19.60	\$17.29
Number of hours per week		
Pharmacy was open	54 hours	53 hours
Worked by proprietor	55 hours	51 hours
Worked by employed pharmacist(s)	15 hours	10 hours
Percent of total prescriptions covered by:		
Medicaid	14.7%	20.0%
Other third party	18.8%	21.7%

*Based on averages of pharmacies that reported all data

Total Sales

\$450,000-\$500,000

Under 60 Prescriptions Daily (39 Pharmacies)	60 to 75 Prescriptions Daily (47 Pharmacies)	Over 75 Prescriptions Daily (43 Pharmacies)
\$326,366— 69.4%	\$394,512— 83.3%	\$441,800— 92.0%
144,165— 30.6%	79,278— 16.7%	38,412— 8.0%
\$470,531—100.0%	\$473,790—100.0%	\$480,212—100.0%
316,066— 67.2%	317,166— 66.9%	337,910— 70.4%
\$154,465— 32.8%	\$156,624— 33.1%	\$142,302— 29.6%
\$ 41,585— 8.8%	\$ 39,895— 8.4%	\$ 34,009— 7.1%
37,138— 7.9%	31,085— 6.6%	25,055— 5.2%
14,072— 3.0%	11,347— 2.4%	10,317— 2.1%
6,057— 1.3%	4,215— 0.9%	4,887— 1.0%
4,461— 0.9%	1,980— 0.4%	1,791— 0.4%
6,933— 1.5%	5,858— 1.2%	4,949— 1.0%
5,442— 1.2%	4,473— 0.9%	4,181— 0.9%
4,312— 0.9%	4,302— 0.9%	2,709— 0.6%
2,540— 0.5%	1,985— 0.4%	3,283— 0.7%
4,465— 0.9%	5,850— 1.2%	3,530— 0.7%
19,335— 4.1%	22,056— 4.7%	32,188— 6.7%
\$146,340— 31.1%	\$133,046— 28.1%	\$126,899— 26.4%
\$ 8,125— 1.8%	\$ 23,578— 5.0%	\$ 15,403— 3.2%
41,585— 8.8%	39,895— 8.4%	34,009— 7.1%
\$ 49,710— 10.6%	\$ 63,473— 13.4%	\$ 49,412— 10.3%
\$ 47,867— 14.7%	\$ 42,295— 10.7%	\$ 49,235— 11.1%
32,260— 22.4%	22,054— 27.8%	9,086— 23.7%
\$ 80,127— 17.0%	\$ 64,349— 13.6%	\$ 58,321— 12.1%
4.0 times	5.1 times	5.8 times
sq. ft.	sq. ft.	sq. ft.
392 \$832.57	442 \$892.56	475 \$930.11
1,908 75.56	1,155 68.64	1,279 30.03
2,300 \$204.58	1,597 \$296.68	1,754 \$273.78
8,351— 53.6%	9,888— 47.5%	12,890— 48.3%
7,237— 46.4%	10,913— 52.5%	13,795— 51.7%
15,588—100.0%	20,801—100.0%	26,685—100.0%
\$20.94	\$18.97	\$16.56
58 hours	53 hours	51 hours
51 hours	50 hours	44 hours
15 hours	9 hours	12 hours
14.4%	16.9%	17.8%
15.9%	17.1%	14.6%

Sales
\$500,000-
\$750,000

TABLE C

Averages per Pharmacy	Total Sales	
	\$500,000-\$600,000	
	Under 60 Prescriptions Daily (37 Pharmacies)	60 to 75 Prescriptions Daily (67 Pharmacies)
Sales		
Prescription	\$330,654— 61.2%	\$417,548— 76.8%
Other	209,647— 38.8%	125,869— 23.2%
Total sales	\$540,301—100.0%	\$543,417—100.0%
Cost of goods sold	368,486— 68.2%	373,497— 68.7%
Gross margin	\$171,815— 31.8%	\$169,920— 31.3%
Expenses		
Proprietor's or manager's salary	\$ 34,319— 6.4%	\$ 38,950— 7.2%
Employees' wages	48,386— 9.0%	39,071— 7.2%
Rent	14,408— 2.7%	12,702— 2.3%
Utilities	6,756— 1.3%	5,844— 1.1%
Accounting, legal, and other professional fees	2,038— 0.4%	2,406— 0.4%
Taxes (except on buildings, income, and profit) and licenses	9,384— 1.7%	6,792— 1.2%
Insurance (except on buildings)	5,365— 1.0%	5,387— 1.0%
Interest paid	5,472— 1.0%	4,900— 0.9%
Computer	3,113— 0.6%	2,974— 0.5%
Depreciation (except on buildings)	5,912— 1.1%	6,775— 1.2%
Miscellaneous	22,522— 4.2%	25,150— 4.6%
Total expenses	\$157,675— 29.2%	\$150,951— 27.8%
Net profit (before taxes)	\$ 14,140— 2.6%	\$ 18,969— 3.5%
Add proprietor's withdrawals	34,319— 6.4%	38,950— 7.2%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 48,459— 9.0%	\$ 57,919— 10.7%
Value of inventory at cost and as a percent of sales		
Prescription	\$ 39,483— 11.9%	\$ 46,792— 11.2%
Other	48,491— 23.1%	35,240— 28.0%
Total value	\$ 87,974— 16.3%	\$ 82,032— 15.1%
Annual rate of turnover of inventory	4.3 times	4.7 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	302 \$1,094.88	411 \$1,015.93
Other	2,509 83.56	1,743 72.21
Total size	2,811 \$ 192.21	2,154 \$ 252.28
Number of prescriptions dispensed		
New	8,288— 53.5%	11,096— 51.7%
Renewed	7,214— 46.5%	10,374— 48.3%
Total prescriptions dispensed	15,502—100.0%	21,470—100.0%
Prescription charge	\$21.33	\$19.45
Number of hours per week		
Pharmacy was open	59 hours	56 hours
Worked by proprietor	54 hours	52 hours
Worked by employed pharmacist(s)	16 hours	13 hours
Percent of total prescriptions covered by:		
Medicaid	19.5%	17.4%
Other third party	17.6%	20.7%

*Based on averages of pharmacies that reported all data

Total Sales

\$600,000-\$750,000

Over 75 Prescriptions Daily (109 Pharmacies)	Under 60 Prescriptions Daily (34 Pharmacies)	60 to 75 Prescriptions Daily (49 Pharmacies)	75 to 100 Prescriptions Daily (99 Pharmacies)	Over 100 Prescriptions Daily (77 Pharmacies)
\$467,757— 85.0%	\$332,441— 50.2%	\$436,078— 66.3%	\$521,212— 78.6%	\$595,331— 87.7%
82,834— 15.0%	330,436— 99.8%	221,988— 33.7%	141,528— 21.4%	83,500— 12.3%
\$550,591—100.0%	\$662,887—100.0%	\$658,066—100.0%	\$662,740—100.0%	\$678,831—100.0%
373,519— 67.8%	454,052— 68.5%	448,690— 68.2%	455,658— 68.8%	471,347— 69.4%
\$177,072— 32.2%	\$208,825— 31.5%	\$209,376— 31.8%	\$207,082— 31.2%	\$207,484— 30.6%
\$ 42,377— 7.7%	\$ 42,159— 6.4%	\$ 47,568— 7.2%	\$ 48,066— 7.3%	\$ 48,633— 7.2%
40,322— 7.3%	57,503— 8.7%	53,720— 8.2%	50,271— 7.6%	52,181— 7.7%
12,387— 2.2%	18,369— 2.8%	16,800— 2.6%	14,876— 2.2%	13,738— 2.0%
5,380— 1.0%	7,182— 1.1%	7,541— 1.1%	6,697— 1.0%	5,861— 0.9%
1,743— 0.3%	2,928— 0.4%	2,535— 0.4%	2,351— 0.4%	2,199— 0.3%
7,425— 1.3%	9,765— 1.5%	8,876— 1.3%	9,330— 1.4%	8,778— 1.3%
4,907— 0.9%	7,921— 1.2%	8,129— 1.2%	6,759— 1.0%	6,990— 1.0%
2,959— 0.5%	4,746— 0.7%	4,207— 0.6%	5,295— 0.8%	3,611— 0.5%
2,706— 0.5%	3,530— 0.5%	2,564— 0.4%	2,556— 0.4%	2,518— 0.4%
4,438— 0.8%	6,702— 1.0%	5,923— 0.9%	6,676— 1.0%	6,771— 1.0%
24,982— 4.5%	35,343— 5.3%	39,842— 6.1%	30,499— 4.6%	34,420— 4.3%
\$149,626— 27.2%	\$196,148— 29.6%	\$197,705— 30.0%	\$183,376— 27.7%	\$180,700— 26.6%
\$ 27,446— 5.0%	\$ 12,677— 1.9%	\$ 11,671— 1.8%	\$ 23,706— 3.6%	\$ 26,784— 3.9%
42,377— 7.7%	42,159— 6.4%	47,568— 7.2%	48,066— 7.3%	48,633— 7.2%
\$ 69,823— 12.7%	\$ 54,836— 8.3%	\$ 59,239— 9.0%	\$ 71,772— 10.8%	\$ 75,417— 11.1%
\$ 49,553— 10.6%	\$ 40,046— 12.0%	\$ 47,889— 11.0%	\$ 53,311— 10.2%	\$ 56,648— 9.5%
14,346— 17.3%	80,182— 24.3%	59,081— 26.6%	35,982— 25.4%	20,033— 24.0%
\$ 63,899— 11.6%	\$120,228— 18.1%	\$106,970— 16.3%	\$ 89,293— 13.5%	\$ 76,681— 11.3%
6.0 times	3.9 times	4.3 times	5.2 times	6.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
408 \$1,146.46	389 \$ 854.60	333 \$1,309.54	430 \$1,212.12	439 \$1,356.11
1,275 64.97	2,918 113.24	2,439 91.02	2,271 62.32	1,419 58.84
1,683 \$ 327.15	3,307 \$200.45	2,772 \$237.40	2,701 \$ 245.37	1,858 \$ 365.36
14,285— 50.1%	6,837— 49.8%	11,170— 52.4%	14,062— 51.2%	18,394— 49.9%
14,211— 49.9%	6,894— 50.2%	10,130— 47.6%	13,415— 48.8%	18,495— 50.1%
28,496—100.0%	13,731—100.0%	21,300—100.0%	27,477—100.0%	36,889—100.0%
\$16.41	\$24.21	\$20.47	\$18.97	\$16.14
56 hours	59 hours	62 hours	57 hours	58 hours
50 hours	62 hours	60 hours	53 hours	53 hours
19 hours	25 hours	17 hours	21 hours	19 hours
18.3%	14.7%	12.6%	13.6%	18.4%
19.8%	20.4%	24.9%	22.2%	20.4%

Sales
\$750,000-
\$1,000,000

TABLE D

Averages per Pharmacy	Total Sales \$750,000-\$1,000,000	
	Under 75 Prescriptions Daily (44 Pharmacies)	75 to 100 Prescriptions Daily (74 Pharmacies)
Sales		
Prescription	\$379,367— 44.7%	\$589,047— 68.6%
Other	469,924— 55.3%	269,731— 31.4%
Total sales	\$849,291—100.0%	\$858,778—100.0%
Cost of goods sold	578,292— 68.1%	592,145— 69.0%
Gross margin	\$270,999— 31.9%	\$266,633— 31.0%
Expenses		
Proprietor's or manager's salary	\$ 41,165— 4.8%	\$ 50,561— 5.9%
Employees' wages	98,497— 11.6%	80,266— 9.3%
Rent	34,696— 4.1%	20,813— 2.4%
Utilities	11,085— 1.3%	8,817— 1.0%
Accounting, legal, and other professional fees	3,919— 0.5%	2,936— 0.3%
Taxes (except on buildings, income, and profit) and licenses	14,587— 1.7%	11,252— 1.3%
Insurance (except on buildings)	10,112— 1.2%	9,573— 1.1%
Interest paid	7,723— 0.9%	4,659— 0.5%
Computer	1,442— 0.2%	3,581— 0.4%
Depreciation (except on buildings)	11,312— 1.3%	7,853— 0.9%
Miscellaneous	38,422— 4.5%	39,922— 4.6%
Total expenses	\$272,960— 32.1%	\$240,233— 28.0%
Net profit (before taxes)	\$ -1,961— -0.2%	\$ 26,400— 3.1%
Add proprietor's withdrawals	41,165— 4.8%	50,561— 5.9%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 39,204— 4.6%	\$ 76,961— 9.0%
Value of inventory at cost and as a percent of sales		
Prescription	\$ 51,214— 13.5%	\$ 61,357— 10.4%
Other	105,142— 22.4%	62,029— 23.0%
Total value	\$156,356— 18.4%	\$123,386— 14.4%
Annual rate of turnover of inventory	3.8 times	5.0 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	370 \$1,025.32	403 \$1,461.66
Other	4,328 108.58	2,932 92.00
Total size	4,698 \$ 180.78	3,335 \$ 257.50
Number of prescriptions dispensed		
New	9,694— 53.0%	14,701— 52.4%
Renewed	8,581— 47.0%	13,363— 47.6%
Total prescriptions dispensed	18,275—100.0%	28,064—100.0%
Prescription charge	\$20.76	\$20.99
Number of hours per week		
Pharmacy was open	67 hours	63 hours
Worked by proprietor	60 hours	54 hours
Worked by employed pharmacist(s)	31 hours	33 hours
Percent of total prescriptions covered by:		
Medicaid	11.4%	15.5%
Other third party	23.5%	25.0%

*Based on averages of pharmacies that reported all data

100 to 125 Prescriptions Daily (94 Pharmacies)	125 to 150 Prescriptions Daily (66 Pharmacies)	Over 150 Prescriptions Daily (31 Pharmacies)
\$683,423— 78.8%	\$745,665— 83.3%	\$807,792— 90.7%
183,456— 21.2%	149,851— 16.7%	83,229— 9.3%
\$866,879—100.0%	\$895,516—100.0%	\$891,021—100.0%
597,409— 68.9%	625,591— 69.9%	617,540— 69.3%
\$269,470— 31.1%	\$269,925— 30.1%	\$273,481— 30.7%
\$ 56,179— 6.5%	\$ 57,744— 6.4%	\$ 49,805— 5.6%
73,626— 8.5%	78,204— 8.7%	70,829— 7.9%
20,515— 2.4%	17,051— 1.9%	19,121— 2.1%
7,648— 0.9%	7,229— 0.8%	4,851— 0.5%
4,279— 0.5%	3,515— 0.4%	2,788— 0.3%
12,350— 1.4%	13,016— 1.5%	13,911— 1.6%
9,414— 1.1%	9,561— 1.1%	9,907— 1.1%
5,192— 0.6%	3,887— 0.4%	5,460— 0.6%
3,280— 0.4%	3,784— 0.4%	4,015— 0.5%
8,618— 1.0%	9,172— 1.0%	6,203— 0.7%
35,537— 4.1%	33,677— 3.8%	28,092— 3.2%
\$236,638— 27.3%	\$236,840— 26.4%	\$214,982— 24.1%
\$ 32,832— 3.8%	\$ 33,085— 3.7%	\$ 58,499— 6.6%
56,179— 6.5%	57,744— 6.4%	49,805— 5.6%
\$ 89,011— 10.3%	\$ 90,829— 10.1%	\$108,304— 12.2%
\$ 68,426— 10.0%	\$ 81,408— 10.9%	\$ 69,478— 8.6%
35,224— 19.2%	18,964— 12.7%	48,053— 57.7%
\$103,650— 12.0%	\$100,372— 11.2%	\$117,531— 13.2%
5.9 times	6.5 times	6.2 times
sq. ft.	sq. ft.	sq. ft.
494 \$3,183.45	597 \$1,249.02	482 \$1,675.92
2,085 87.99	1,781 84.14	1,429 58.24
2,579 \$ 336.13	2,378 \$ 376.58	1,911 \$ 466.26
18,268— 51.6%	21,377— 50.4%	31,184— 56.8%
17,145— 48.4%	21,040— 49.6%	23,693— 43.2%
35,413—100.0%	42,417—100.0%	54,877—100.0%
\$19.30	\$17.58	\$14.72
62 hours	59 hours	58 hours
53 hours	58 hours	53 hours
29 hours	25 hours	20 hours
16.8%	17.3%	32.0%
28.3%	23.8%	19.2%

Sales
\$1,000,000-
\$1,500,000

TABLE E

Averages per Pharmacy	Total Sales	
	\$1,000,000-\$1,500,000	
	Under 100 Prescriptions Daily (40 Pharmacies)	100 to 125 Prescriptions Daily (47 Pharmacies)
Sales		
Prescription.....	\$ 558,798— 46.2%	\$ 738,523— 62.4%
Other.....	650,250— 53.8%	444,357— 37.6%
Total sales.....	\$1,209,048—100.0%	\$1,182,880—100.0%
Cost of goods sold.....	810,477— 67.0%	813,162— 68.7%
Gross margin.....	\$ 398,571— 33.0%	\$ 369,718— 31.3%
Expenses		
Proprietor's or manager's salary.....	\$ 57,589— 4.8%	\$ 58,134— 4.9%
Employees' wages.....	141,364— 11.7%	127,280— 10.8%
Rent.....	38,354— 3.2%	28,728— 2.4%
Utilities.....	14,517— 1.2%	12,733— 1.1%
Accounting, legal, and other professional fees.....	4,877— 0.4%	5,008— 0.4%
Taxes (except on buildings, income, and profit) and licenses.....	17,855— 1.5%	16,870— 1.4%
Insurance (except on buildings).....	15,135— 1.3%	14,947— 1.3%
Interest paid.....	12,172— 1.0%	6,929— 0.6%
Computer.....	4,866— 0.4%	4,881— 0.4%
Depreciation (except on buildings).....	9,860— 0.8%	10,312— 0.9%
Miscellaneous.....	62,735— 5.2%	59,282— 5.0%
Total expenses.....	\$ 379,324— 31.4%	\$ 345,104— 29.2%
Net profit (before taxes).....	\$ 19,247— 1.6%	\$ 24,614— 2.1%
Add proprietor's withdrawals.....	57,589— 4.8%	58,134— 4.9%
Total income of self-employed proprietor (before taxes on income and profits).....	\$ 76,836— 6.4%	\$ 82,748— 7.0%
Value of inventory at cost and as a percent of sales		
Prescription.....	\$ 59,036— 10.6%	\$ 67,602— 9.2%
Other.....	144,035— 22.2%	95,470— 21.5%
Total value.....	\$ 203,071— 16.8%	\$ 163,072— 13.8%
Annual rate of turnover of inventory.....	4.1 times	5.2 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription.....	414 \$1,349.75	472 \$1,564.67
Other.....	6,401 101.59	3,518 126.31
Total size.....	6,815 \$ 177.41	3,990 \$ 296.46
Number of prescriptions dispensed		
New.....	13,148— 53.6%	18,045— 50.4%
Renewed.....	11,390— 46.4%	17,765— 49.6%
Total prescriptions dispensed.....	24,538—100.0%	35,810—100.0%
Prescription charge.....	\$22.77	\$20.32
Number of hours per week		
Pharmacy was open.....	69 hours	68 hours
Worked by proprietor.....	63 hours	61 hours
Worked by employed pharmacist(s).....	45 hours	40 hours
Percent of total prescriptions covered by:		
Medicaid.....	10.2%	15.8%
Other third party.....	19.9%	24.0%

*Based on averages of pharmacies that reported all data

125 to 150 Prescriptions Daily (59 Pharmacies)	150 to 200 Prescriptions Daily (81 Pharmacies)	Over 200 Prescriptions Daily (30 Pharmacies)
\$ 842,492— 72.4%	\$ 935,485— 76.3%	\$1,112,801— 84.6%
321,282— 27.6%	289,779— 23.7%	202,051— 15.4%
\$1,163,774—100.0%	\$1,225,264—100.0%	\$1,314,852—100.0%
809,522— 69.6%	856,038— 69.9%	868,369— 66.0%
\$ 354,252— 30.4%	\$ 369,226— 30.1%	\$ 446,483— 34.0%
\$ 57,870— 5.0%	\$ 61,702— 5.0%	\$ 77,132— 5.9%
118,165— 10.2%	121,259— 9.9%	150,802— 11.5%
24,630— 2.1%	24,767— 2.0%	27,503— 2.1%
10,332— 0.9%	9,665— 0.8%	9,012— 0.7%
4,499— 0.4%	4,060— 0.3%	5,236— 0.4%
15,927— 1.4%	17,241— 1.4%	18,125— 1.4%
14,554— 1.3%	13,134— 1.1%	15,836— 1.2%
5,937— 0.5%	6,392— 0.5%	5,938— 0.5%
3,697— 0.3%	3,967— 0.3%	3,891— 0.3%
10,733— 0.9%	9,257— 0.8%	12,879— 1.0%
52,287— 4.5%	53,229— 4.3%	59,550— 4.5%
\$ 318,631— 27.4%	\$ 324,673— 26.5%	\$ 385,904— 29.3%
\$ 35,621— 3.1%	\$ 44,553— 3.7%	\$ 60,579— 4.6%
57,870— 5.0%	61,702— 5.0%	77,132— 5.9%
\$ 93,491— 8.0%	\$ 106,255— 8.7%	\$ 137,711— 10.5%
\$ 80,475— 9.6%	\$ 91,606— 9.8%	\$ 91,067— 8.2%
58,703— 18.3%	54,590— 18.8%	38,598— 19.1%
\$ 139,178— 12.0%	\$ 146,196— 11.9%	\$ 129,665— 9.9%
6.0 times	6.0 times	7.0 times
sq. ft.	sq. ft.	sq. ft.
561 \$1,501.77	510 \$1,834.28	623 \$1,786.20
2,775 115.78	2,461 117.75	1,851 109.16
3,336 \$ 348.85	2,971 \$ 412.41	2,474 \$ 531.47
22,376— 51.8%	26,665— 50.4%	38,289— 54.0%
20,786— 48.2%	26,267— 49.6%	32,595— 46.0%
43,162—100.0%	52,932—100.0%	70,884—100.0%
\$19.52	\$17.67	\$15.70
67 hours	65 hours	60 hours
63 hours	57 hours	59 hours
36 hours	40 hours	44 hours
13.8%	13.9%	26.6%
26.9%	27.3%	21.1%

Sales Over
\$1,500,000

TABLE F

Averages per Pharmacy	Total Sales Over \$1,500,000		
	Under 150 Prescriptions Daily (29 Pharmacies)	150 to 200 Prescriptions Daily (42 Pharmacies)	Over 200 Prescriptions Daily (82 Pharmacies)
Sales			
Prescription	\$ 798,037— 40.5%	\$1,077,455— 55.6%	\$1,666,964— 75.9%
Other	1,173,711— 59.5%	860,037— 44.4%	529,744— 24.1%
Total sales	\$1,971,748—100.0%	\$1,937,492—100.0%	\$2,196,708—100.0%
Cost of goods sold	1,379,822— 70.0%	1,356,130— 70.0%	1,535,186— 69.9%
Gross margin	\$ 591,926— 30.0%	\$ 581,362— 30.0%	\$ 661,522— 30.1%
Expenses			
Proprietor's or manager's salary	\$ 64,334— 3.3%	\$ 73,618— 3.8%	\$ 76,788— 3.5%
Employees' wages	216,260— 1.0%	205,980— 10.6%	261,113— 11.9%
Rent	51,845— 2.6%	44,221— 2.3%	33,866— 1.5%
Utilities	17,326— 0.9%	18,404— 0.9%	16,176— 0.7%
Accounting, legal, and other professional fees	6,152— 0.3%	6,760— 0.3%	11,726— 0.5%
Taxes (except on buildings, income, and profit) and licenses	28,180— 1.4%	24,393— 1.3%	28,930— 1.3%
Insurance (except on buildings)	17,192— 0.9%	17,809— 0.9%	23,505— 1.1%
Interest paid	13,708— 0.7%	10,787— 0.6%	13,741— 0.6%
Computer	4,666— 0.2%	6,297— 0.3%	6,740— 0.3%
Depreciation (except on buildings)	20,914— 1.1%	14,985— 0.8%	20,282— 0.9%
Miscellaneous	92,580— 4.7%	121,281— 6.3%	103,749— 4.7%
Total expenses	\$ 533,157— 27.0%	\$ 544,535— 28.1%	\$ 596,616— 27.2%
Net profit (before taxes)	\$ 58,769— 3.0%	\$ 36,827— 1.9%	\$ 64,906— 3.0%
Add proprietor's withdrawals	64,334— 3.3%	73,618— 3.8%	76,788— 3.5%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 123,103— 6.2%	\$ 110,445— 5.7%	\$ 141,694— 6.5%
Value of inventory at cost and as a percent of sales			
Prescription	\$ 85,282— 10.7%	\$ 92,576— 8.6%	\$ 139,160— 8.3%
Other	207,340— 17.7%	144,214— 16.8%	110,384— 20.8%
Total value	\$ 292,622— 14.8%	\$ 236,790— 12.2%	\$ 249,544— 11.4%
Annual rate of turnover of inventory	4.8 times	5.9 times	6.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	636 \$1,254.78	499 \$2,159.23	937 \$1,779.04
Other	6,636 176.87	6,584 130.63	3,544 149.48
Total size	7,272 \$ 271.14	7,083 \$ 273.54	4,481 \$ 490.23
Number of prescriptions dispensed			
New	20,055— 53.2%	28,837— 53.2%	50,263— 53.0%
Renewed	17,648— 46.8%	25,39— 46.8%	44,624— 47.0%
Total prescriptions dispensed	37,703—100.0%	54,236—100.0%	94,887—100.0%
Prescription charge	\$21.17	\$19.87	\$17.57
Number of hours per week			
Pharmacy was open	76 hours	75 hours	72 hours
Worked by proprietor	77 hours	60 hours	65 hours
Worked by employed pharmacist(s)	60 hours	67 hours	70 hours
Percent of total prescriptions covered by:			
Medicaid	14.6%	15.4%	19.8%
Other third party	23.6%	33.4%	26.3%

*Based on averages of pharmacies that reported all data

BALANCE SHEET AND FINANCIAL RATIOS

The primary objective of a business is to earn a satisfactory return on the funds invested in it. Owners should review balance sheet data from the standpoint of a capital investor by relating income to funds invested and evaluating the overall liquidity and profitability of the business. Financial ratios developed from balance sheet information can be used to measure return on investment, ability to meet current obligations (current ratio), solvency of the business (debt/equity ratio), and profitability.

The ability to analyze business operations by examining and interpreting accounting records may be one of the keys to successful business management. Ratios calculated from financial information are not inflexible measures of success or failure; however, they can serve as general indicators of performance at given points in time. It may be more beneficial to compare a pharmacy's past financial ratios with its latest ratios and attempt to determine general trends. The financial ratios in Table 9 involve both sales volume and store age.

Liquidity or Short-Term Capitalization

Liquidity measures the pharmacy's ability to meet its current obligations; it reflects the relationship between the store's short-term financial position and the source of funds available to meet its obligations.

$$\text{CURRENT RATIO} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The "current ratio" is determined by dividing the current assets (cash, inventory, and accounts receivable) by the current liabilities (accounts and notes due within one year). Creditors like to see a high current ratio because it indicates a wide margin of safety for any claims against the business. However, too high a current ratio may mean that a manager is not using funds in the most productive way because, for example, the inventory may be too high.

Some observers believe that a current ratio of 2:1 is appropriate for many businesses. This value would allow assets, especially inventory, to shrink by 50% and still cover current obligations. The average current ratio for operations in the 1990 LILLY DIGEST is 3.5; newer stores usually had lower ratios than established stores.

Profitability

Profitability measures management's ability to increase the owner's equity.

$$\text{NET PROFIT ON NET SALES} = \frac{\text{Net Profit (before taxes)}}{\text{Annual Sales}}$$

Net profit as a percent of sales is a widely used measure of profitability. Year-to-year comparisons may demonstrate if increased net profits were solely the result of increased sales or the result of a decreased percentage being paid for cost of goods and expenses. This measure of profitability is most useful in connection with another ratio, return on investment.

$$\text{RETURN ON INVESTMENT} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Net worth is the amount of the owner's equity that would be available if the total assets were liquidated and total liabilities were paid off. To determine the return on investment, the net profit before taxes is divided by the net worth. In recent years, the return-on-investment (or the return-on-equity) calculation was considered to be the broadest measure of overall performance because it evaluates how well funds as supplied by the owner are being utilized. Some individuals feel that a more accurate indicator of return on investment would be the return-on-total-investment figure.

Solvency or Long-Term Capitalization

Solvency is used when lenders estimate the borrowing potential of a firm. Solvency refers to the ability of a pharmacy to meet the repayment schedule of long-term obligations.

$$\text{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A store in which the total debt exceeds the owner's equity is vulnerable to sharp changes in the operation. Such changes may be caused by a sudden drop in sales or a rise in expenses. On the other hand, when the debt/equity ratio is low in comparison with those of other operations, the business may not be leveraged to the best advantage. The average debt/equity ratio for operations submitting data to the 1990 LILLY DIGEST was 65.2%.

$$\text{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of the equity in the generation of sales. A high ratio may imply that the owner's capitalization is inadequate or that the pharmacy is a highly leveraged operation. When the ratio is low, the operation is not making full use of its funds, and the owner's investment has become stagnant. An average net sales to net worth ratio of 6.4 was noted for operations submitting 1989 data.

$$\text{AVERAGE PAYABLE PERIOD} = \frac{\text{Outstanding Accounts Payable} \times 365}{\text{Annual Purchases}}$$

This ratio expresses the number of days outstanding in accounts payable and measures the extent to which a business is

Table 9 Balance sheet and financial ratios by sales under \$400,000
store age as of December 31, 1989

Averages per Pharmacy	Store Age Under 5 Years (69 Pharmacies)		Store Age Over 5 Years (156 Pharmacies)	
		Percent of Sales		Percent of Sales
Assets				
Current assets				
Cash	\$ 9,292	3.0%	\$ 11,395	4.0%
Accounts receivable	11,600	3.7%	12,495	4.3%
Inventory	46,702	15.0%	47,450	16.5%
Total current assets	\$ 67,594	21.7%	\$ 71,340	24.8%
Fixed assets less depreciation	13,541	4.3%	10,389	3.6%
Other assets				
Prepaid expenses, deposits	2,231	0.7%	2,142	0.7%
Total assets*	\$ 83,366	26.8%	\$ 83,871	29.1%
Liabilities				
Current liabilities				
Accounts payable	\$ 12,256	3.9%	\$ 10,264	3.6%
Notes payable (within one year)	6,378	2.0%	3,463	1.2%
Accrued expenses and other liabilities	3,601	1.2%	3,447	1.2%
Total current and accrued liabilities	\$ 22,235	7.1%	\$ 17,174	6.0%
Long-term liabilities				
Notes payable (later than one year)	25,361	8.1%	11,344	3.9%
Total liabilities	\$ 47,596	15.3%	\$ 28,518	9.9%
Net Worth	35,770	11.5%	55,353	19.2%
Total liabilities and net worth*	\$ 83,366	26.8%	\$ 83,871	29.1%
Net working capital	\$ 45,359	14.6%	\$ 54,166	18.8%
Sales	\$311,601	100.0%	\$287,855	100.0%
Purchases	\$214,860	69.0%	\$193,308	67.2%
Net profit (before taxes)	\$ 11,745	3.8%	\$ 5,446	1.9%
Financial Ratios				
Current assets to current liabilities	3.0 times		4.2 times	
Net sales to net worth	8.7 times		5.2 times	
Net profit (before taxes) on net worth	32.8%		9.8%	
Total liabilities to net worth	133.1%		51.5%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

operating on supplier's capital. A short payable period may mean that a business is not operating on supplier's capital. On the other hand, a long payable period may mean that the pharmacy is not taking suppliers' cash discounts. However, when the lost cash discounts are considered, it is one of the most expensive sources of funds. LILLY DIGEST stores reported an average payable period of about 20 days. This is down from 21 days reported the previous year.

In Table 9, balance sheet data from participating pharmacies were categorized both by sales volume and store age. Capitalization figures and financial ratios were divided into three categories—sales under \$400,000, sales \$400,000 to \$600,000, and sales over \$600,000. Stores within each category are further characterized by how long they have been in business. The most important figures for the comparison of categories are those determined as percents of sales.

Table 9 shows that after a pharmacy's first five years, long-term liabilities decrease both dollarwise and as a percent of sales because the business may become increasingly able to generate adequate funds to retire debt and increase net worth. The net sales to net worth ratio demonstrates this; it drops sharply as pharmacies become more established. Total liabilities to net worth follows a similar trend. The data also indicate that fixed assets as a percent of sales decrease as an operation matures. This is not surprising because, with time, depreciation decreases the value of fixed assets. Net working capital rises dollarwise in operations that are five years old or older. Return on investment (net profit on net worth) is normally higher in newly established pharmacies because most of the capital is borrowed and the equity is small. As business becomes more established, financing shifts from debt to equity, and the return on investment falls and generally stabilizes around 20%.

sales \$400,000 to \$600,000

Store Age Under 5 Years (103 Pharmacies)		Store Age Over 5 Years (238 Pharmacies)	
Percent of Sales		Percent of Sales	
\$ 17,997	3.6%	\$ 19,322	3.9%
22,447	4.5%	20,886	4.2%
69,152	13.9%	69,081	13.8%
\$109,596	22.0%	\$109,289	21.8%
15,106	3.0%	14,395	2.9%
4,607	0.9%	7,284	1.5%
\$129,309	25.9%	\$130,968	26.2%
\$ 20,229	4.1%	\$ 18,997	3.8%
7,882	1.6%	4,505	0.9%
3,596	0.7%	4,943	1.0%
\$ 31,707	6.4%	\$ 28,445	5.7%
34,857	7.0%	18,448	3.7%
\$ 66,564	13.3%	\$ 46,893	9.4%
62,745	12.6%	84,075	16.8%
\$129,309	25.9%	\$130,968	26.2%
\$ 77,889	15.6%	\$ 80,844	16.2%
\$498,851	100.0%	\$500,256	100.0%
\$343,870	68.9%	\$341,160	68.2%
\$ 24,859	5.0%	\$ 19,540	3.9%
3.5 times		3.8 times	
8.0 times		6.0 times	
39.6%		23.2%	
106.1%		55.8%	

sales over \$600,000

Store Age Under 5 Years (110 Pharmacies)		Store Age Over 5 Years (343 Pharmacies)	
Percent of Sales		Percent of Sales	
\$ 23,718	3.1%	\$ 31,663	4.1%
33,819	4.4%	34,423	4.4%
100,238	12.9%	104,708	13.4%
\$157,775	20.4%	\$170,794	21.9%
26,300	3.4%	19,366	2.5%
13,447	1.7%	8,479	1.1%
\$197,522	25.5%	\$198,639	25.5%
\$ 32,937	4.3%	\$ 29,055	3.7%
11,852	1.5%	9,070	1.2%
9,429	1.2%	9,326	1.2%
\$ 54,218	7.0%	\$ 47,451	6.1%
46,370	6.0%	21,412	2.7%
\$100,588	13.0%	\$ 68,863	8.8%
96,934	12.5%	129,776	16.7%
\$197,522	25.5%	\$198,639	25.5%
\$103,557	13.4%	\$123,343	15.8%
\$774,702	100.0%	\$778,742	100.0%
\$542,819	70.1%	\$540,869	69.5%
\$ 37,048	4.8%	\$ 25,289	3.2%
2.9 times		3.6 times	
8.0 times		6.0 times	
38.2%		19.5%	
103.8%		53.1%	

GEOGRAPHIC SUMMARY

Geographic location may have an influence on the operating data of pharmacies (Table 10). It has been suggested that sales and expenses are altered by regional factors, such as the cost of living, population density, competition, pharmacy manpower, and third-party prescription activity.

The highest average prescription charge (\$19.50) was reported in the Pacific States. The lowest (\$16.02) was reported by the East South Central States. The Pacific region again

reported the highest total wage package, 17.2% of total sales.

The West South Central States reported the lowest sales volume in 1989. It is interesting to note that the pharmacies in this region reported one of the highest ratios of prescription sales to total sales. The region reporting the highest gross margin (34.4%) was the Pacific region. The West North Central States reported the high net profit at 4.0% of total revenue. The East South Central States reported the highest number of prescriptions

annually, 37,504. This is in contrast to the Mountain States, which dispensed 23,963 prescriptions in 1989, the lowest number of any region.

The Geographic Summary was designed to show differences in operating data with geographic location. It is suggested that a manager first compare pharmacy operating data with statistics in "The Heart of the Lilly Digest" (pages 13 to 24). The regional information may then be used to examine variations from the averages and, perhaps, justify them.

Table 10 *Summary by geographic region (1989)*

Geographic Region	Total Sales (\$000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package	Rent	Total Expenses
New England States (CT, MA, ME, NH, RI, VT)	\$1,087.7	62.8%	30.3%	16.4%	2.3%	28.7%
Middle Atlantic States (NJ, NY, PA)	\$ 962.2	72.3%	29.6%	14.3%	2.2%	26.7%
East North Central States (IL, IN, MI, OH, WI)	\$ 905.5	71.9%	30.6%	15.1%	2.1%	27.6%
West North Central States (IA, KS, MN, MO, ND, NE, SD)	\$ 693.0	71.8%	31.1%	14.5%	2.3%	27.2%
South Atlantic States (DC, DE, FL, GA, MD, NC, SC, VA, WV)	\$ 761.5	73.8%	31.2%	15.3%	2.2%	27.8%
East South Central States (AL, KY, MS, TN)	\$ 744.6	80.7%	30.5%	15.4%	1.9%	26.9%
West South Central States (AR, LA, OK, TX)	\$ 655.5	80.5%	32.0%	14.5%	2.5%	28.4%
Mountain States (AZ, CO, ID, MT, NM, NV, UT, WY)	\$ 733.3	61.6%	30.6%	14.9%	2.7%	28.0%
Pacific States (AK, CA, HI, OR, WA)	\$ 796.8	69.8%	34.4%	17.2%	3.0%	32.1%
Lilly Digest Average	\$ 810.5	72.1%	31.1%	15.2%	2.3%	28.1%

*As percent of total prescriptions

Net Profit	Inventory at Cost	Annual Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist Hours Worked per Week	Third-Party Prescriptions*
1.6%	11.1%	36,328	\$18.81	69	40	44.9%
2.9%	12.9%	37,238	\$18.69	66	33	50.6%
3.0%	13.6%	35,658	\$18.26	61	30	47.1%
4.0%	14.2%	27,478	\$18.11	58	23	31.3%
3.4%	12.2%	29,874	\$18.80	58	25	32.7%
3.5%	13.5%	37,504	\$16.02	61	21	32.4%
3.7%	12.7%	28,483	\$18.52	56	19	31.7%
2.7%	15.6%	23,963	\$18.84	59	19	31.0%
2.3%	13.2%	28,524	\$19.50	55	23	41.5%
3.1%	13.2%	31,820	\$18.37	60	26	39.1%

OPERATING TRENDS

Ten-Year Trends in Pharmacy Operations

Total sales continue their uptrend during 1989, as shown in Chart 1. Sales volume for 1989 rose 5.6% over the previous year, a growth rate lower than the average of about 7.5% observed during the past decade.

In Table 11, pharmacy operating data are shown as percents of sales for each year during the decade. Cost of goods

sold has risen from 65.7% to 68.9% of total sales. This has resulted in gross margin percent decreasing from 34.3% to 31.1%. It should be noted that the 1989 gross margin was the lowest percent of total sales in the history of the LILLY DIGEST, but gross margin dollars were the highest. This may reflect pharmacists' increased awareness of the benefits of covering the cost to dispense a prescription rather than having a high gross margin percent but not covering the cost

to dispense.

Over the past decade, employee wages and total expenses have generally decreased in relation to total sales. Net profit has ranged from 2.7% to 3.3% of total revenue. Inventory at cost has decreased over the last 10 years from 16.1% of sales in 1980 to 13.2% of sales in 1989.

Ten-Year Trends in Balance Sheet and Financial Ratio Data

Table 12 shows trends in balance sheet

Chart 1

A Decade of Sales Growth

Total Sales Volume (\$000)

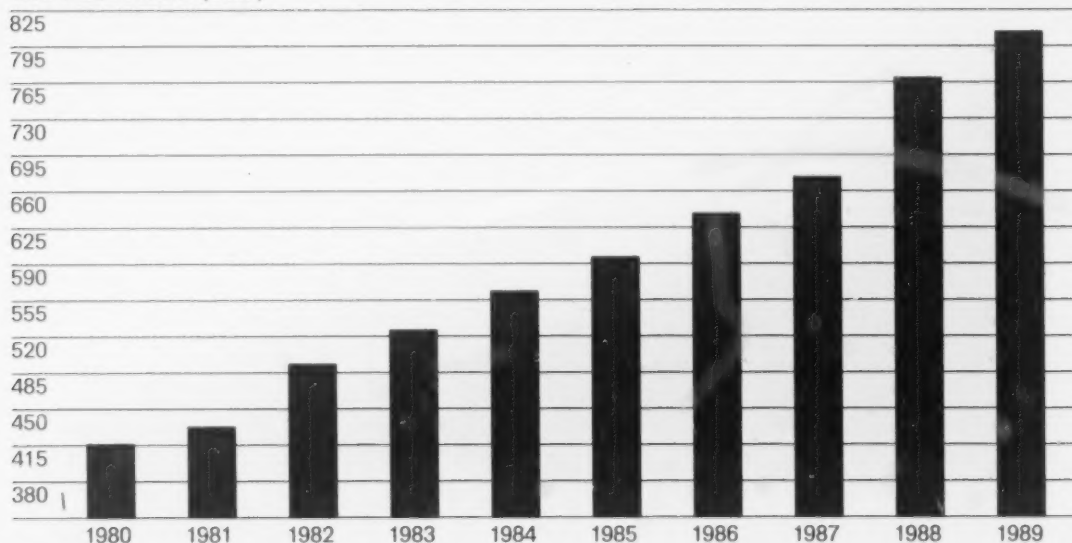


Table 11

Averages of pharmacy operations—1980-1989 (based on all pharmacies reporting)

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1980	\$416,161	65.7%	34.3%	6.3%	11.8%	2.4%	10.5%	31.0%	3.3%	16.1%
1981	\$439,133	65.7%	34.3%	6.3%	11.5%	2.5%	10.8%	31.1%	3.2%	15.7%
1982	\$498,021	66.4%	33.6%	6.0%	11.3%	2.4%	11.0%	30.7%	2.9%	15.3%
1983	\$528,864	66.9%	33.1%	6.0%	10.8%	2.4%	11.0%	30.2%	2.9%	14.9%
1984	\$571,313	67.0%	33.0%	5.8%	10.5%	2.4%	11.2%	29.9%	3.1%	15.0%
1985	\$593,918	67.4%	32.6%	5.9%	10.2%	2.4%	11.3%	29.8%	2.8%	14.9%
1986	\$653,593	67.8%	32.2%	5.9%	10.0%	2.3%	11.3%	29.5%	2.7%	14.3%
1987	\$678,148	67.9%	32.1%	6.3%	9.4%	2.3%	10.7%	28.8%	3.3%	14.1%
1988	\$767,812	68.5%	31.5%	5.9%	9.5%	2.3%	10.8%	28.5%	3.0%	13.4%
1989	\$810,541	68.9%	31.1%	5.9%	9.3%	2.3%	10.5%	28.1%	3.1%	13.2%

data, expressed as percents of sales, along with selected financial ratios. Inventory as a percent of sales decreased to 13.8%, the lowest in the past decade. Current assets and current liabilities decreased to their lowest levels of the past decade, but still yielded an excellent 3.5 ratio. Fixed assets declined to 2.9% of sales, which may indicate that store owners should evaluate the need for updating and remodeling store fixtures. Net profit

decreased slightly to 3.7% of sales. Total liability fell to 10.2% of total sales, the lowest figure in the past decade. Net working capital fell to 15.7%, which is about mid-range for the last 10 years.

The current ratio (current assets to current liabilities) increased from 3.0 in 1979 to 3.5 times in 1989. This may suggest that the typical pharmacy owner is maintaining sufficient funds to satisfy current obligations. However,

the uptrend of net sales to net worth implies that LILLY DIGEST pharmacies have become more leveraged. Return on investment (net profit on net worth) remained above 20% at 23.3%.

Total debt to net worth, an indication of how highly leveraged an operation is, declined from previous years. This decline in owners' indebtedness may indicate that profits are being used to retire debt and thereby increase the solvency of an operation.

Table 12 *Ten-year balance sheet trends*

	1989	1987	1985	1983	1981	1979
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash.....	3.8%	4.1%	3.5%	3.4%	3.2%	3.3%
Accounts receivable.....	4.3%	4.2%	4.1%	3.7%	3.8%	3.8%
Inventory.....	13.8%	14.4%	15.3%	15.3%	16.0%	16.4%
Total current assets.....	21.9%	22.7%	22.9%	22.4%	23.0%	23.5%
Fixed assets less depreciation.....	2.9%	3.5%	4.1%	3.8%	3.7%	3.9%
Other assets						
Prepaid expenses, deposits, etc.....	1.2%	1.4%	1.4%	1.4%	1.5%	1.5%
Total assets*	<u>26.0%</u>	<u>27.6%</u>	<u>28.4%</u>	<u>27.6%</u>	<u>28.2%</u>	<u>28.9%</u>
Liabilities						
Current and accrued liabilities						
Accounts payable.....	3.8%	4.1%	4.3%	4.3%	4.5%	4.6%
Notes payable (within one year).....	1.2%	1.4%	1.7%	1.5%	1.6%	1.6%
Accrued expenses and other liabilities.....	1.1%	1.0%	1.1%	1.6%	1.6%	1.5%
Total current and accrued liabilities.....	6.1%	6.5%	7.1%	7.4%	7.7%	7.7%
Long-term liabilities						
Notes payable (later than one year).....	4.1%	4.9%	4.9%	4.4%	4.3%	4.2%
Total liabilities	<u>10.2%</u>	<u>11.4%</u>	<u>12.0%</u>	<u>11.8%</u>	<u>12.0%</u>	<u>11.9%</u>
Net Worth	<u>15.8%</u>	<u>16.2%</u>	<u>16.4%</u>	<u>15.8%</u>	<u>16.2%</u>	<u>17.0%</u>
Total liabilities and net worth*.....	<u>26.0%</u>	<u>27.6%</u>	<u>28.4%</u>	<u>27.6%</u>	<u>28.2%</u>	<u>28.9%</u>
Net working capital.....	15.7%	16.2%	15.8%	15.0%	15.3%	15.7%
Sales.....	100%	100%	100%	100%	100%	100%
Purchases.....	69.0%	68.0%	67.1%	67.5%	66.7%	66.6%
Net profit (before taxes).....	3.7%	3.9%	3.3%	3.4%	3.3%	3.5%
Financial Ratios						
Current assets to current liabilities.....	3.5 times	3.5 times	3.2 times	3.0 times	3.0 times	3.0 times
Net sales to net worth.....	6.4 times	6.2 times	6.1 times	6.3 times	6.2 times	5.9 times
Net profit (before taxes) on net worth.....	23.3%	24.3%	20.0%	21.2%	20.6%	20.7%
Total liabilities to net worth.....	65.2%	70.0%	74.1%	74.6%	74.2%	71.3%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

PHARMACY LOCATION

The operating statistics of LILLY DIGEST pharmacies according to location are presented in Tables 13 and 14. This year, LILLY DIGEST operations were segregated into rural and metropolitan locations, then divided into four types of operations—apothecary, shopping center, medical

building, and traditional. When compared with data from the previous year, the percent of participating pharmacies from rural areas (population under 50,000) increased to over 70% of the stores reporting.

Metropolitan shopping center pharmacies reported the highest average sales, largest floor area, and longest store hours for the second consecutive

year. These pharmacies also had the lowest net profit and total income of self-employed proprietors as a percent of total sales.

The largest number of stores reporting were rural, traditional pharmacies. Gross margin for these stores was 30.5%, which is below the average LILLY DIGEST store. These stores also reported having the lowest rent per

Table 13 *Summary of pharmacy operations by location*

Averages per Pharmacy	Rural		Shopping Center		Medical Building		Traditional	
	(113 Pharmacies)		(147 Pharmacies)		(106 Pharmacies)		(766 Pharmacies)	
Sales								
Prescription	\$601,562—	90.1%	\$621,110—	62.4%	\$569,351—	90.6%	\$563,290—	71.0%
Other	66,314—	9.9%	374,790—	37.6%	58,985—	9.4%	229,982—	29.0%
Total sales	\$667,876—	100.0%	\$995,900—	100.0%	\$628,336—	100.0%	\$793,272—	100.0%
Cost of goods sold	450,351—	67.4%	684,835—	68.8%	419,059—	66.7%	551,366—	69.5%
Gross margin	\$217,525—	32.6%	\$311,066—	31.2%	\$209,277—	33.3%	\$241,906—	30.5%
Expenses								
Proprietor's or manager's salary ..	\$ 48,653—	7.3%	\$ 51,611—	5.2%	\$ 42,269—	6.7%	\$ 47,127—	5.9%
Employees' wages	52,892—	7.9%	95,455—	9.6%	46,676—	7.4%	73,376—	9.2%
Rent	12,813—	1.9%	28,285—	2.8%	18,130—	2.9%	14,982—	1.9%
Miscellaneous operating costs ..	74,250—	11.1%	105,308—	10.6%	58,097—	9.2%	81,402—	10.3%
Total expenses	\$188,608—	28.2%	\$280,659—	28.2%	\$169,172—	26.9%	\$216,887—	27.3%
Net profit (before taxes)	\$ 28,917—	4.3%	\$ 30,406—	3.1%	\$ 40,106—	6.4%	\$ 25,019—	3.2%
Proprietor's withdrawals	48,653—	7.3%	51,611—	5.2%	46,269—	7.4%	47,127—	5.9%
Total income of self-employed proprietor (before taxes on income and profits)	\$ 77,570—	11.6%	\$ 82,017—	8.2%	\$ 86,375—	13.7%	\$ 72,146—	9.1%
Value of inventory at cost and as a percent of sales								
Prescription	\$ 67,238—	11.2%	\$ 60,465—	9.7%	\$ 58,410—	10.3%	\$ 57,982—	10.3%
Other	3,078—	4.6%	86,837—	23.2%	9,262—	15.7%	50,484—	22.0%
Total value	\$ 70,316—	10.5%	\$147,302—	14.8%	\$ 67,672—	10.8%	\$108,466—	13.7%
Annual rate of inventory turnover ..	6.4 times		4.6 times		6.2 times		7.3 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	508	\$1,184.18	435	\$1,427.84	555	\$1,025.86	418	\$1,347.58
Other	759	87.37	3,453	108.54	628	93.93	2,623	87.68
Total size	1,267	\$ 527.13	3,888	\$ 256.15	1,183	\$ 531.14	3,041	\$ 260.86
Rent per square foot*	\$10.11		\$7.27		\$15.33		\$4.93	
Number of prescriptions dispensed								
New	16,217—	50.6%	16,811—	51.2%	17,126—	54.2%	15,472—	49.6%
Renewed	15,801—	49.4%	16,054—	48.8%	14,467—	45.8%	15,736—	50.4%
Total prescriptions dispensed ..	32,018—	100.0%	32,865—	100.0%	31,593—	100.0%	31,208—	100.0%
Prescription charge	\$18.79		\$18.90		\$18.02		\$18.05	
Number of hours per week								
Pharmacy was open	53 hours		62 hours		51 hours		59 hours	
Worked by proprietor	42 hours		38 hours		34 hours		42 hours	
Worked by employed pharmacist(s)	15 hours		27 hours		18 hours		21 hours	
Percent of total prescriptions covered by:								
Medicaid	15%		11%		13%		14%	
Other third party	18%		20%		16%		17%	

*Based on averages of pharmacies that reported all data

square foot at \$4.93—this is \$1.80 below the LILLY DIGEST average.

The highest net profit as a percent of total sales was 6.4% reported by pharmacies in medical buildings in rural locations. These operations also reported the highest total income for proprietors as a percent of total sales.

Traditional rural pharmacies turned

their inventory an average of 7.3 times a year, which is well above the 5.4 times seen in the average LILLY DIGEST store. Metropolitan shopping center pharmacies report dispensing the most prescriptions as well as reporting the highest average prescription price of \$19.33. The percent of third-party prescriptions ranged from 29% in

rural medical buildings to 42% in metropolitan medical building pharmacies.

As might be expected, apothecary and medical building pharmacies (regardless of location) reported the highest rent per square foot, but they also reported the highest sales per square foot.

Table 14 *Summary of pharmacy operations by location*

Metropolitan				Shopping Center				Medical Building				Traditional							
Averages per Pharmacy				(80 Pharmacies)				(87 Pharmacies)				(99 Pharmacies)				(204 Pharmacies)			
Sales																			
Prescription				\$529,198— 88.4%				\$ 711,984— 59.6%				\$624,501— 85.8%				\$604,049— 68.3%			
Other				69,753— 11.6%				482,118— 40.4%				103,174— 14.2%				280,159— 31.7%			
Total sales				\$598,951—100.0%				\$1,194,102—100.0%				\$727,675—100.0%				\$884,208—100.0%			
Cost of goods sold.				413,591— 69.1%				830,063— 69.5%				471,609— 64.8%				612,359— 69.3%			
Gross margin				\$185,361— 30.9%				\$ 364,039— 30.5%				\$256,066— 35.2%				\$271,849— 30.7%			
Expenses																			
Proprietor's or manager's salary				\$ 42,759— 7.1%				\$ 53,329— 4.5%				\$ 52,035— 7.2%				\$ 46,692— 5.3%			
Employees' wages				44,860— 7.5%				133,338— 11.2%				66,064— 9.1%				89,255— 10.1%			
Rent				12,115— 2.0%				35,336— 3.0%				23,341— 3.2%				21,838— 2.5%			
Miscellaneous operating costs				61,734— 10.3%				130,120— 10.9%				91,065— 12.5%				93,913— 10.6%			
Total expenses				\$161,468— 27.0%				\$ 352,123— 29.5%				\$232,505— 32.0%				\$251,698— 28.5%			
Net profit (before taxes)				\$ 23,893— 4.0%				\$ 11,917— 1.0%				\$ 23,561— 3.2%				\$ 20,151— 2.3%			
Proprietor's withdrawals				42,759— 7.1%				53,329— 4.5%				52,035— 7.2%				46,692— 5.3%			
Total income of self-employed proprietor (before taxes on income and profits)				\$ 66,652— 11.1%				\$ 65,246— 5.5%				\$ 75,596— 10.4%				\$ 66,843— 7.6%			
Value of inventory at cost and as a percent of sales																			
Prescription				\$ 54,742— 10.3%				\$ 66,786— 9.4%				\$ 60,972— 9.8%				\$ 59,207— 9.8%			
Other				12,728— 18.2%				93,943— 19.5%				20,173— 19.6%				53,230— 19.0%			
Total value				\$ 67,470— 11.3%				\$ 160,729— 13.5%				\$ 81,145— 11.2%				\$112,437— 12.7%			
Annual rate of inventory turnover				6.1 times				5.2 times				5.8 times				5.4 times			
Size of area and sales per square foot*																			
Prescription				sq. ft. 436 \$1,213.76				sq. ft. 474 \$1,502.08				sq. ft. 513 \$1,217.35				sq. ft. 477 \$1,266.35			
Other				862 80.92				4,240 113.71				877 117.64				2,557 109.57			
Total size				1,298 \$ 461.44				4,714 \$ 253.31				1,390 \$ 523.51				3,034 \$ 291.43			
Rent per square foot*				\$9.33				\$7.50				\$16.79				\$7.20			
Number of prescriptions dispensed																			
New				14,105— 50.2%				19,359— 52.6%				19,851— 60.8%				17,715— 54.5%			
Renewed				14,010— 49.8%				17,466— 47.4%				12,815— 39.2%				14,770— 45.5%			
Total prescriptions dispensed				28,115—100.0%				36,825—100.0%				32,666—100.0%				32,485—100.0%			
Prescription charge				\$18.82				\$19.33				\$19.12				\$18.59			
Number of hours per week																			
Pharmacy was open				55 hours				68 hours				49 hours				60 hours			
Worked by proprietor				39 hours				41 hours				36 hours				41 hours			
Worked by employed pharmacist(s)				16 hours				41 hours				25 hours				24 hours			
Percent of total prescriptions covered by:																			
Medicaid				13%				9%				17%				15%			
Other third party.				22%				22%				25%				22%			

*Based on averages of pharmacies that reported all data

SELECTED SERVICE DATA

Select service data is presented by geographic region in Table 15. For the second consecutive year, LILLY DIGEST participants in the West North Central States had the highest percent of stores servicing long-term care facilities. Long-term facilities accounted for 18% of the total sales in stores in the Middle Atlantic States, the highest percent of any region. It will be interesting to see if the percent of independent commu-

nity pharmacies servicing long-term facilities increases as the average age of the United States population increases and the impact such changes might have on total sales.

Two regions, East North Central States and Mountain States, reported over 25% of the LILLY DIGEST stores providing service to Health Maintenance Organizations (HMOs). In the Mountain States, total sales from HMOs was 21% of total sales, well above the

national average of 12%. The Middle Atlantic and East South Central States were the only regions to report less than 10% of total sales from HMOs.

The percent of LILLY DIGEST stores that indicated participation in Pharmacy Services Administrative Organizations (PSAO) decreased from 35% last year to 28% in this reporting year. For the second consecutive year, over 80% of the stores in the West North Central States indicated they belonged to

Table 15 *Geographic summary of selected service data*

Region	Servicing Long-Term Care Facility	Sales From Long-Term Care Facility	Providing Service to HMO	Total Sales From HMO	Belong to PSAO	Belong to Retail Buying Group	Prescription Purchases Using Buying Group Contracts
New England States (CT, MA, ME, NH, RI, VT)	32%	16%	25%	15%	34%	62%	32%
Middle Atlantic States (NJ, NY, PA)	20	18	25	9	32	46	37
East North Central States (IL, IN, MI, OH, WI)	29	15	37	10	29	67	43
West North Central States (IA, KS, MN, MO, ND, NE, SD)	65	13	23	15	29	86	36
South Atlantic States (DC, DE, FL, GA, MD, NC, SC, VA, WV)	18	14	16	10	23	50	38
East South Central States (AL, KY, MS, TN)	31	11	18	6	24	42	28
West South Central States (AR, LA, OK, TX)	57	12	15	17	23	45	36
Mountain States (AZ, CO, ID, MT, NM, NV, UT, WY)	43	11	28	21	37	60	51
Pacific States (AK, CA, HI, OR, WA)	17	11	24	11	31	65	26
United States average	34%	13%	24%	12%	28%	60%	37%

buying groups; however, pharmacies from the Mountain States reported purchasing over 50% of their prescription products under group contracts, the highest percent of any region.

Table 16 presents selected service data according to sales. Service and sales to long-term care facilities, as last year, showed no real trend relative to total sales. As the sales volume of a pharmacy increases, it seems more likely that the pharmacy will be provid-

ing service to health maintenance organizations. Larger volume operations have a higher percent of stores participating in PSAOs. Perhaps managers of such operations are more aware of the benefits of attracting business from awards to PSAOs. Stores with sales under \$400,000 were the only segment to report less than 60% of their stores belonging to retail buying groups, but those stores had the highest percent of prescription purchases

using buying group contracts.

Trends in the service areas should be monitored as independent community pharmacies adapt to changes in the health care environment. The service areas analyzed in this section along with third-party prescription activity may play an increasing part in the total financial picture of an operation and its net profit.

Table 16 *Sales summary of selected service data*

Sales	Servicing Long-Term Care Facility	Sales From Long-Term Care Facility	Providing Service to HMO	Total Sales From HMO	Belong to PSAO	Belong to Retail Buying Group	Prescription Purchases Using Buying Group Contracts
Under \$400,000	30%	16%	17%	16%	19%	48%	43%
\$400,000-\$700,000	38	12	21	11	29	62	38
\$700,000-\$1,000,000	29	10	26	12	29	64	33
Over \$1,000,000	37	14	34	10	34	63	36
United States average	34%	13%	24%	12%	28%	60%	37%

CONCLUSION

Store that reported doing low (2% to 15%) and high (55% to 99%) third-party prescription volume as a percent of total prescriptions are shown in Table 17. Stores with a high volume of third-party prescriptions reported lower gross margin and total proprietor's income as a percent of total sales. These stores also reported a lower average prescription charge. It is interesting to note that high third-party activity stores reported the same net profit as a percent of sales as low third-party activity stores. This is in contrast to last

year when high third-party stores reported a lower net profit percent.

For 1989 operating data, a new record was set for total sales. Gross margin as a percent of sales was the lowest in the history of the LILLY DIGEST, but gross margin dollars were the highest ever recorded in the DIGEST. The average prescription price was \$18.37, but from the data received, it is not possible to tell if this rise is the result of an increase in days of therapy dispensed per prescription and/or retail price increases alone.

The objective of the first LILLY DIGEST,

which reported on the 1932 operations of 271 pharmacies, was to provide authentic and useful data on retail pharmacy operations so that owners, managers, and their financial advisors could evaluate individual stores and, perhaps, be more successful. This objective has remained unchanged through the years.

Eli Lilly and Company will provide a free analysis of any independent retail pharmacy's operation. The form on pages 37 and 38 may be used to take advantage of this confidential service.

Table 17 *Lilly Digest averages of selected operating statistics*

Averages per Pharmacy	Selected Stores, Low Third-Party Activity (153 Pharmacies)	Selected Stores, High Third-Party Activity (247 Pharmacies)
Sales		
Prescription	\$490,771— 69.6%	\$694,375— 74.1%
Other	214,547— 30.4%	243,255— 25.9%
Total sales	\$705,318—100.0%	\$937,630—100.0%
Cost of goods sold	\$484,473— 68.7%	\$647,666— 69.1%
Gross margin	\$220,845— 31.3%	\$289,964— 30.9%
Expenses		
Proprietor's or manager's salary	\$ 43,282— 6.1%	\$ 54,185— 5.8%
Employees' wages	62,788— 8.9%	86,932— 9.3%
Rent	18,341— 2.6%	20,275— 2.2%
Miscellaneous operating expenses	74,366— 10.5%	99,216— 10.6%
Total expenses	\$198,777— 28.2%	\$260,608— 27.8%
Net profit (before taxes)	\$ 22,068— 3.1%	\$ 29,356— 3.1%
Add proprietor's withdrawal	43,282— 6.1%	54,185— 5.8%
Total income of self-employed proprietor (before taxes on income and profit)	\$ 65,350— 9.3%	\$ 83,541— 8.9%
Number of prescriptions dispensed		
New	12,407— 47.7%	21,194— 56.1%
Renewed	13,610— 52.3%	16,596— 43.9%
Total prescriptions dispensed	26,017—100.0%	37,790—100.0%
Prescription charge	\$18.86	\$18.37
Third-party prescriptions	11% (2-15%)	67% (55-99%)

*Based on averages of pharmacies that reported all data

ANALYSIS WORK SHEET

If you wish to perform your own analysis, this work sheet will be useful . . . fill in and compare.

If you would like to have the Lilly Analysis Service analyze your financial data for the current year, just complete the "Current Data" column on the Income and Expense Statement and Balance Sheet and fill in the Supplemental Information section below. Then, mail the analysis work sheet to Eli Lilly and Company, Department MC-698, Building 74/5, Indianapolis, Indiana 46285.

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 13-24)	Notes (• of •)
Net sales	\$	%	%		%
Inventory (start of period) of goods at cost	\$	%	%		%
Total amount of merchandise purchased	\$	%	%		%
Inventory (end of period) of goods at cost	\$	%	%		%
Cost of goods sold	\$	%	%		%
Gross margin (net sales less cost of goods sold)	\$	%	%		%
Expenses					
Proprietor's or manager's salary	\$	%	%		%
Employees' wages	\$	%	%		%
Rent	\$	%	%		%
Heat, light, power, and telephone	\$	%	%		%
Accounting, legal, and other professional fees	\$	%	%		%
Taxes (except on buildings, income, and profit) and licenses	\$	%	%		%
Insurance (except on buildings)	\$	%	%		%
Interest paid	\$	%	%		%
Computer	\$	%	%		%
Depreciation (except on buildings)	\$	%	%		%
Miscellaneous	\$	%	%		%
Total	\$	%	%		%
Net operating profit (gross margin less total expenses)	\$	%	%		%

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 25-27)	Notes (• of •)
Current assets					
Cash	\$	%	%		%
Accounts receivable	\$	%	%		%
Merchandise inventory	\$	%	%		%
Total	\$	%	%		%
Fixed assets (exclude land and buildings)					
Fixtures, equipment, leasehold improvements	\$	%	%		%
Less depreciation reserve	\$	%	%		%
Net fixed assets	\$	%	%		%
Other assets (prepaid expenses, deposits)	\$	%	%		%
Total	\$	%	%		%
Current liabilities					
Accounts payable	\$	%	%		%
Notes payable (within one year)	\$	%	%		%
Accrued expenses and other liabilities	\$	%	%		%
Total	\$	%	%		%
Long-term liabilities (notes payable later than one year)	\$	%	%		%
Total liabilities	\$	%	%		%
Net worth	\$	%	%		%

Your self-analysis work sheet continues on the next page

Other Calculations	Lilly Digest Data (Comparable Categories) (see pages 13-24, 25-27)			Notes (● or ●)
	Current Data	Last Year	a	
Inventory turnover	times		es	times
Prescription sales: prescription inventory	\$	\$		\$
Average prescription charge	\$	\$		\$
Number of prescriptions				
Current assets: current liabilities	times	times		times
Net sales: net working capital	times	times		times
Long-term liabilities: net working capital	%	%		%
Accounts payable outstanding	days	days		days
Net profit: net worth	%	%		%

Supplemental Information

Size of pharmacy: _____ sq. ft. Number of hours open per week: _____

Size of prescription department: _____ sq. ft. Number of days open per week: _____

Years and type of operation under same ownership:

- ☐ Under 2 ☐ 2 to 5 ☐ 6 to 10 ☐ Over 10
☐ Sole proprietorship ☐ Partnership ☐ Corporation

Pharmacy location:

- ☐ Metropolitan (population over 50,000) ☐ Rural (population under 50,000)

Pharmacy type:

- ☐ Traditional ☐ Shopping center ☐ Medical office building ☐ Apothecary

Business space is: ☐ Rented Figures submitted last year? ☐ Yes
☐ Owned ☐ No

Number of prescriptions dispensed:
 (for the period of time covered
 by the Income and Expense Statement)

New _____

Renewals _____

Total _____

Total prescription receipts: \$ _____

Prescription inventory: \$ _____

Percentage of total prescriptions covered by:

Medicaid _____ %

Other third party _____ %

Individual Analysis (Send individual analysis to:)

Name or P.O. Box _____

Street _____

City _____ State _____

Zip Code _____

REFER INQUIRIES TO: EDITOR, LILLY DIGEST
 (317-276-6009)

